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Inflation returns, worldwide

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Politics this week

Jun 17th 2004
From The Economist print edition

Bloodshed in Iraq

AP

The new **Iraqi** interim government had a bloody week. On June 17th at least 35 people were killed in a car-bomb attack on people queuing for jobs in the new Iraqi army. Earlier, three senior officials were killed in separate incidents. Sabotage of oil pipelines reduced exports by 80%. And it became unclear who would be in charge of Saddam Hussein and other top detainees after the formal handover on June 30th.

See article

At a foreign ministers' meeting in Istanbul, the **Organisation of the Islamic Conference** (OIC), which embraces 57 Muslim countries, endorsed the new interim government in Iraq, while the body's secretary-general, Abdelouahed Belkeziz, said that Muslim countries should try harder to be democratic.

Terrorists apparently linked to al-Qaeda kidnapped an American businessman after killing another, in a separate incident, in Riyadh, **Saudi Arabia's** capital.

An American official said that Abdul Rahman al-Amoudi, an American Muslim facing trial for alleged illegal financial dealings with **Libya**, had told the FBI that he had been involved in a conspiracy (that was abortive) organised by Libya's Colonel Muammar Qaddafi to kill Saudi Arabia's Crown Prince Abdullah. The Libyans deny it.

Israel's attorney-general said he had decided not to charge the prime minister, Ariel Sharon, in a bribery case that had been hanging over him for more than a year. This may encourage Mr Sharon to push ahead more forcefully with his controversial plan for Israel to withdraw from the Gaza strip. Israel said it had foiled a Palestinian plot to mount six simultaneous suicide-bombings. Despite American misgivings, Israel began extending its controversial security barrier around the Ariel settlement block, deep in the occupied West Bank.

James Baker, a former American secretary of state, resigned after seven years as the UN's special representative for the disputed **Western Sahara**. Morocco still rules out a referendum that would include the possibility of independence but may consider granting wider autonomy.

Euro-apathy

EPA

Most voters stayed away from the **European elections**. Those who did vote tended to punish their governments or to back Eurosceptical parties. The results were a slap in the face for European Union leaders, just as they gathered for a crucial EU summit meant to agree a new constitution.

See article

In **Serbia's** presidential election, the extreme-nationalist candidate, Tomislav Nikolic, came out top with 30% of the vote. But he faces a run-off with the pro-reform candidate, Boris Tadic.

See article

After securing the support of another leftist opposition party, **Poland's** acting Socialist prime minister, Marek Belka, is now expected to win a vote of confidence that will confirm him in office. But his government may still not survive long, partly because his party remains highly unpopular with voters.

Russia's president, Vladimir Putin, met the little-known interior minister of **Chechnya**, Alu Alkhanov, indicating that the Kremlin was now behind his candidature to take over the war-torn republic's presidency from Akhmad Kadyrov, who was assassinated last month.

Help required

Hamid Karzai, **Afghanistan's** president, called on NATO to send more troops to his country ahead of elections, scheduled for September. In the past ten days, two bombs went off, apparently targeting the international peacekeeping force and 11 Chinese workers were shot dead near Kunduz, until recently regarded as fairly safe.

See article

After a crackdown by **Pakistan's** security forces in the region bordering Afghanistan, militants launched an attack on a security post. The area is believed to harbour supporters of al-Qaeda and the Taliban. Pakistan arrested ten suspected al-Qaeda terrorists.

Three leaders of **Indonesia's** separatist Free Aceh Movement were arrested in Sweden, where they have lived since the early 1980s. The movement, which has fought the central government for 27 years, vowed to continue the struggle for independence.

Separate enemies

The **September 11th commission** said that there was “no credible evidence” to suggest that Saddam Hussein had assisted al-Qaeda in the terrorist attacks on America. George Bush has long insisted on the existence of links between the two, partly justifying his decision to go to war with Iraq on those grounds.

The **Supreme Court** overturned a ruling that the phrase “under God” in the pledge of allegiance is unconstitutional. A lower court said it violated the separation of church and state. The new ruling was made on a technicality concerning the plaintiff's legal standing to bring the case.

A Somali national living in Ohio was accused of plotting to blow up a shopping mall in Columbus. Nuradin Abdi was charged by a grand jury for having links to **al-Qaeda** and immigration violations.

The Census Bureau reported that the (legal) **Latino** population of America grew by 4.6m people between 2000 and July last year to reach 39.9m, half the nation's total population growth during the period.

Drugs of war

In an isolated hamlet close to **Colombia's** border with Venezuela, 34 coca pickers were slaughtered by armed men in the worst such massacre since President Álvaro Uribe took office two years ago. Police blamed the killing on FARC guerrillas, who battle right-wing paramilitaries for control of the area's drug trade.

See article

Mexico's president, Vicente Fox, said he would ask his country's Congress to legislate to let some 10m Mexicans living abroad, mainly in America, to vote in the presidential election of 2006. The opposition agrees in principle, but there are practical difficulties.

In two televised election debates, Paul Martin, **Canada's** prime minister, accused his chief opponent, Stephen Harper, the Conservative leader, of fiscal irresponsibility. But the latest opinion poll gave the Conservatives a narrow lead.

Reuters

See article

In **Bolivia**, the mayor of a small town on the Altiplano in the high Andes was burned alive by opponents. The mayor had opposed land invasions by radical groups.

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Business this week

Jun 17th 2004
From The Economist print edition

Takeover accepted

Mandalay Resort Group accepted a raised takeover bid of $7.9 billion from **MGM Mirage**, a rival American casino operator. The deal creates the world's largest casino group, which will control a third of Las Vegas's gaming houses and half the hotel rooms on the strip.

Yahoo! announced measures to counter **Google's** free e-mail service, Gmail. The internet giant will take on its arch-rival by upgrading storage on free e-mail accounts from four to 100 megabytes of storage (though Google promises ten times that amount), and re-releasing inactive e-mail addresses.

Oracle's profits grew by a healthy 15% in the latest quarter compared with a year ago to $990m as corporate IT spending recovered. The American software firm said that it was ready to spend on acquisitions despite legal wranglings with antitrust regulators over its proposed takeover of PeopleSoft.

Overseas consumers were denied the hefty sums often awarded by American courts in **antitrust cases**. The Supreme Court ruled that international firms could not be sued in America for antitrust offences committed abroad when it rejected a ruling in favour of victims of a vitamin cartel.

In a blow to **Boeing**, Virgin America announced that it would buy and lease up to 105 aircraft from Airbus. The low-cost carrier is hoping to begin services in 2005. But Boeing bounced back by beating Lockheed Martin to a contract worth some $3.9 billion to supply the American navy with anti-submarine aircraft.

The rich are getting richer, according to a report by Capgemini and Merrill Lynch. The worldwide tally of millionaires (with financial assets of at least $1 million, excluding the value of their homes) grew by half a million to 7.7m in 2003. America led the way with 2.3m millionaires, 14% more than in 2002.

Mitsubishi misfires

Mitsubishi Motors said that it would cut jobs and costs further and seek a bigger cash injection to recover from another setback. Sales at the Japanese car firm are likely to plunge after it was forced to make another recall—this time of 450,000 vehicles at its Fuso truck arm. Fuso is part-owned with DaimlerChrysler, which recently refused to contribute to a bail-out of Mitsubishi.

A business review at **Hollinger International**—ordered after the removal of its boss, Lord Black—uncovered a long-running fraud that had inflated circulation figures of the *Chicago Sun-Times*. Lord Black, who is locked in an acrimonious legal dispute with Hollinger International, called the claims a "smear campaign".

Green's special offer

Marks & Spencer rejected an improved offer worth at least £8.4 billion ($15.4 billion) from Philip Green, a British retailing tycoon. Having failed to win the approval of the M&S board, Mr Green has to decide whether to make a hostile offer for the iconic retailer.

America's Federal Trade Commission said it would not create a national "**Do Not Spam**" registry modelled on its successful "Do Not Call" initiative. Nuisance telemarketing calls have fallen but the FTC believes that publicising e-mail addresses not wanting spam would serve as a useful directory for

unscrupulous spammers.

Sir Tim Berners-Lee, the inventor of the **world wide web**, was awarded the first Millennium Technology Prize in Helsinki. The *euro*1m ($1.2m) prize, which will be awarded every two years, is Finland's answer to the Nobel prizes awarded by Sweden and Norway.

Oil's high price

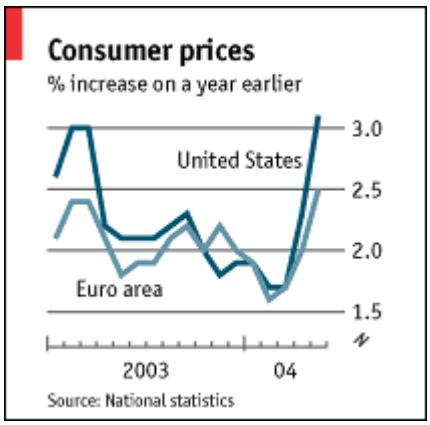
Yukos, struggling with a tax bill of $3.4 billion that threatens to bankrupt it, attempted to strike a deal with Russia's government. The oil giant's plan to sell assets or to issue new equity met with a frosty reception, causing its shares to fall further. Meanwhile, the long-awaited trial on fraud and tax evasion of Yukos's former boss, Mikhail Khodorkovsky, opened in Moscow but was promptly adjourned.

See article

Oil prices began to rise again after attacks on pipelines severely restricted Iraqi exports and gunmen killed a senior Iraqi official responsible for oil-field security in the north of the country. Prices had fallen from a peak of $42 after OPEC promised to increase supplies.

Rising **inflation** added to expectations that America's Federal Reserve will raise interest rates at the end of the month. Consumer prices grew by 0.6% in May after energy prices jumped, pushing inflation over the past 12 months to 3.1%. But core inflation (with food and energy stripped out) grew by just 1.7%, and soothing words from Alan Greenspan suggested that rates would rise gradually.

See article



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Global inflation

Back to the 1970s?

Jun 17th 2004
From The Economist print edition

Not quite. But loose monetary policy is nevertheless encouraging rising inflation

REMEMBER flared trousers and platform shoes? Today most people would prefer to forget the embarrassing garb they wore in the 1970s, but they would be foolish to forget another scourge of that time: high inflation. From a rate of 2-3% through most of the 1960s the average inflation rate in developed economies soared to 13% in 1974, and stayed in the 7-12% range for the next eight years. By October 1979, Paul Volcker—then chairman of America's Federal Reserve—had had enough. In his so-called “Saturday night special” he announced a severe tightening of monetary policy designed to squeeze out inflation. That was a defining moment, heralding the start of a new assertiveness among most central banks. Since then, inflation has fallen everywhere, making life less complicated for firms, households and savers alike. Many worry that this success might now be in jeopardy.

That may seem like an odd fear with current inflation rates still so low. Alan Greenspan, Mr Volcker's successor, is pretty confident that he has everything under control. Even though inflation is rising more sharply than expected in America, in the euro area and in many other countries around the globe (see article), he told the Senate banking committee this week that “inflation pressures are not likely to be a serious concern”. In fact, as recently as a year ago many central banks were fretting about the risk of deflation. The Fed's objective then was to drive inflation higher. The good news is that Mr Greenspan and other central bankers have avoided deflation. But the bad news is that they may have been a bit too successful, and inflation is coming back more strongly than expected.

Some of the recent rise in inflation is due to higher oil prices, which have now thankfully fallen a little. But that is only part of the problem. The world economy is growing at its fastest pace for two decades. As a result, there is less spare capacity than central banks had been counting on. This makes it easier for firms to push up prices. But the key to all this is something that should directly concern central banks: the world's growth is being fuelled by historically low interest rates.

The lure of inflation

Over the centuries inflation has moved up and down, but rising inflation has always been caused by excessive monetary expansion, often associated with wars or other strains on government finances. It is alarming, therefore, that monetary and fiscal policies are currently so lax. In the G7 economies the average budget deficit as a share of GDP is almost as big as at any time in the past 50 years, while global monetary policy is, by some measures, at its loosest since the 1970s—when inflation last took off.

Prudent monetary policy in the hands of independent central banks deserves much of the credit for the fall in inflation over the past two decades. They have been assisted by globalisation and more competition, which have helped to hold down prices. But how sure are central banks of their independence? In recent weeks, both Nicolas Sarkozy, France's finance minister, and Silvio Berlusconi, Italy's prime minister, have publicly called on the European Central Bank to cut interest rates. In the future, politicians might again put real pressure on central bankers to let inflation rip, because this would reduce the value of the enormous debt that governments may have to borrow to meet the costs of an ageing population.

Even if central banks retain their independence, they too can make mistakes. Two reasons are commonly offered for why 1970s-style inflation cannot return. First, it is argued that central banks have a better grip on money and hence inflation these days. And second, that bond markets would not let inflation take off; instead, rising bond yields would automatically curb growth. In other words, central banks will police inflation and the capital markets will police the central banks. The snag is that both assumptions may reflect exaggerated confidence in the skill of central bankers and bond investors.

The view from the red planet

Suppose a Martian returned to Earth today, a quarter century after his last visit. He would be unaware of the success of independent central banks in taming inflation over the past two decades (and of concerns about deflation last year), and much less in awe of Mr Greenspan than are financial markets. He would note that America's economic slack is disappearing fast, that its nominal GDP has risen by 7% over the past year and that inflation is around 3% and rising. From this he might guess that short-term interest rates should be around 4%—ie, positive in real terms. Tell him that America's interest rates are currently 1% and he would probably jump on the next flight back to Mars.

From this point of view it seems bizarre that financial markets are worrying about whether interest rates will be raised by a quarter or half a percentage-point at the Fed's meeting on June 30th. The real questions are: why has the Fed not tightened sooner? And how high do interest rates need to rise?

Indeed, global monetary policy as a whole would look dangerously lax to a Martian, with average interest rates in the big economies at their lowest in recorded history. All the liquidity being pumped out by central banks has to flow somewhere. Even if inflation in the prices of goods and services remains lower than in the 1970s, overly lax monetary policies will fuel bubbles in house prices or equities in many countries. Central bankers should be just as concerned about this as about old-fashioned consumer-price inflation. Instead, some seem to be just as complacent as they were in previous periods before inflation took off.

It still looks unlikely that inflation will return to the double-digit rates of the 1970s. But central banks would be wise to do more to mop up today's excessive flow of liquidity. Mr Volcker, who bravely launched the successful fight against the ruinous inflation of the 1970s, would understand why. “The truly unique power of a central bank”, he once observed, “is the power to create money, and ultimately the power to create is the power to destroy.” Today's central bankers need to remember that.

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World Heritage sites

Ruins on the rack

Jun 17th 2004
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UNESCO needs to attract more private money to its historic sites

Alamy

THERE is enormous appeal in the idea that a number of the world's ancient monuments are of such beauty and significance that their conservation should be a matter of universal concern, transcending the national interests of the country in which they happen to be located. This is the basis of UNESCO's list of World Heritage sites, a selection of 754 extraordinary places, ranging from the pyramids of Giza to the Great Wall of China, that merit the special care and attention of us all.

It is possible to niggle over UNESCO's choices: maybe there is at least one Czech church too many. And it is possible to argue that the list is too long and too ambitious. But this is so chiefly in as far as UNESCO cannot deliver the promise of help that being on the list creates. The list itself embraces only a small part of our universal heritage. But UNESCO's annual budget for its World Heritage sites has never been more than $4m. With sites in 129 countries, including Afghanistan, Iraq and Zimbabwe, where is it to begin?

Rightly, it starts with the most needy. Most of its efforts are focused on the poorest countries of Africa and places damaged by natural disasters such as earthquakes and wars. In some cases the organisation has generated so much publicity about the deteriorating condition of a site (as with Cambodia's Angkor Wat in the early 1990s, for instance) that financial help has been forthcoming from elsewhere. Thankfully, most of its sites are not in such dire straits. They are all, however, continually at risk from the weather and theft. Protecting them from both requires money, lots of it.

Two years ago UNESCO launched a scheme to try to persuade the private sector to help in its conservation efforts. But so far the scheme has delivered little, and this is not because the private sector is not willing to help. In emergencies money comes flooding in—as when David Packard, an American philanthropist, came to the rescue of the exceptional Zeugma mosaics in eastern Turkey (see article). The World Monuments Fund (WMF), a New York-based private organisation, raises large sums from private companies such as American Express. In 2003 the WMF gave $15.3m to some 400 sites.

The governing committee of UNESCO's World Heritage sites is holding its annual meeting in China at the end of June. Top of its agenda should be the injection of some private-sector blood to the committee itself, whose 21 members are all state officials. Then it needs to come up with new ways to generate more private support for its activities. It might start by looking at UNICEF, a sister organisation for children's issues that has been far more successful at finding private partners.

UNESCO should also embrace more ambitious joint-ventures for developing sustainable tourism at its

sites. This is a vexed issue because tourism can be a mixed blessing. The school parties who currently swarm unattended over the corroding rock dwellings of Goreme (a World Heritage site in central Turkey) are rapidly depreciating a valuable asset. But World Heritage sites should be top-of-the-range destinations for upmarket travellers whose spending will pay for the proper chaperoning of school parties. There are already examples of the right approach, and in some unlikely places. At Tanzania's Ngorongoro crater, a World Heritage site, the efforts of private organisations such as CC Africa have ensured that visitors and wildlife are carefully managed, for the benefit of both, and for the future generations of both. More such examples, please, UNESCO.

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Afghanistan

NATO fails a test

Jun 17th 2004
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The alliance has missed a chance to help both Afghanistan and itself

AFP

Get article background

"THIS time, we will not walk away from you." Thus Tony Blair in November, 2001, at the end of the short and muscular campaign that drove the barbarous Taliban from power. "You, the people, must agree your own government, and your own future, but we, the coalition, must give you the help and support that you need as you seek to rebuild your troubled country, and that support will be forthcoming."

To many people, that promise now seems to lie broken. The Afghans themselves have valiantly done their bit: they established an interim government, then held a *loya jirga*, or grand council, to set up a more legitimate administration. They drafted a constitution, and under its provisions are now preparing to hold democratic presidential and parliamentary elections in September. But the western powers have not kept their side of the pact. They have sent butter, but not guns, which matter more for now. Unlike Bosnia, which was flooded with 60,000 mainly American, British and French troops after the Dayton conference, cementing peace into place, Afghanistan has been largely left to fend for itself.

True, there are some 20,000 coalition troops still operating there, but these are mainly hunting Osama bin Laden and al-Qaeda's remnants. Providing basic security, so essential to success in Bosnia, has largely been left to an under-resourced International Security Assistance Force (ISAF), with a grand total of 6,500 men, almost all of them based in Kabul. The Afghan capital, in consequence, is reasonably safe; most of the rest of the country is anything but (see article). The coalition does, as well as running combat operations, field a dozen small security teams, including an impressive one run by Britain in the western city of Mazar-i-Sharif. But the overall effort is very much too slim.

This has large practical consequences. Without security, there can be no development: the UN, and most aid organisations, have ceased almost all activity in south and south-eastern Afghanistan, where lawlessness is at its worst. Without security, political development also grinds to a halt: so far, only around 3.5m of Afghanistan's estimated 10m eligible voters, mostly those in and around the main cities, have been registered for elections now only three months away. Holding the election in September as planned will be hard.

It is hard to avoid the conclusion that this represents a disgraceful failure by NATO, the organisation that

last August was asked to run ISAF and extend its remit outside the capital. Since then the members of the transatlantic alliance have dithered and stalled. This week, they were finally expected to agree to send only a few hundred more troops to Afghanistan. That is far short of the 4,000 originally hoped for, which was itself too few. What is particularly wooden-headed about this is that Afghanistan ought to have been a golden opportunity for NATO to show its continuing usefulness in the post-cold-war world by conducting exactly the sort of “out-of-area” operation to which it needs to adapt itself if it is not to die. There is still time for NATO to redeem itself, but it is running out fast.

With only a third of the voters registered, with warlords and drug barons ruling the roost in much of the country, and with ominous “night letters” threatening anyone who votes with death, there is a case for postponing September's election. If Hamid Karzai, the current transitional president, is elected on such a narrow franchise, the boost to the legitimacy that he needs will be compromised. The dominant Pushtuns, in particular, will feel aggrieved, since violence may make it impossible to hold any sort of vote in their areas. However, the election has already been put back by three months from its original target date, and because of Afghanistan's savage winters a further delay would kick it to next May or later.

September's election is still worth holding

On balance, it is therefore still worth sticking to September. If, as seems sadly likely, NATO's security efforts continue to be feeble, there is little hope that an election six months or so down the line would be any better. The main result—Mr Karzai's re-election—is likely to be the same either way, even if a later election produced a rather more representative parliament. But a substantial delay would award a victory to the people who are trying their murderous hardest to prevent the elections ever taking place—the Taliban and al-Qaeda.

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Arab women

Their time has come

Jun 17th 2004
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Arab women are demanding their rights—at last

Getty

EVEN the Saudis—or rather, the small number of men who actually rule their troubled country—are giving ground in the struggle for women's rights. For sure, the recommendations handed this week to Crown Prince Abdullah at the end of an unprecedented round of “national dialogue” concentrating on the role of women were fairly tame (see article). In the reformers-versus-reactionaries litmus test of whether women should be allowed to drive cars (at present they cannot do so in the kingdom, nor can they travel unaccompanied, by whatever means of motion), the king was merely asked to “assign a body to study a public-transport system for women to facilitate mobility”. No mention, of course, of the right to vote—but then that has been denied to men too, though local elections, on an apparently universal franchise, are supposed to be held in October. In sum, it is a tortoise's progress. But the very fact of the debate happening at all is remarkable—and hopeful.

It is not just in Saudi Arabia that more rights for women are being demanded but across the whole of the Arab and Muslim world. The pushy Americans have made women's rights part of their appeal for greater democracy in what they now officially call the “Broader Middle East”, to include non-Arab Muslim countries such as Iran, Turkey and even Afghanistan. Many Arabs have cautioned the Americans against seeking to impose their own values on societies with such different traditions and beliefs. Many leading Muslims have accused the culturally imperious Americans of seeking to destroy Islam. The appeal for more democracy in the Muslim world issued by leaders of the eight biggest industrial countries was watered down for fear of giving offence. Yet, despite the Arabs' prickliness, the Americans have helped pep up a debate that is now bubbling fiercely in the Arab world, even though many Arab leaders, none of whom is directly elected by the people, are understandably wary of reforms that could lead to their own toppling. Never before have women's rights in the Arab world been so vigorously debated. That alone is cause to rejoice.

Don't blame the Koran

One of the great falsehoods deployed by the conservatives, nearly all of them men, is that the Koran, the word of God as imparted to Muhammad more than 13 centuries ago, decrees that women should remain in second place. The trouble in Saudi Arabia (and in Iran, just outside the Arab fold but still influential in parts of it, such as Iraq and Lebanon) is that conservatives, on whom—for reasons of history and realpolitik—the regime still relies, have grabbed a near-monopoly of religious authority, imposing an exceptionally narrow interpretation of Islam on the people, especially women. To take but one example, it is written that women should dress modestly, but nowhere is it stated that they should be covered

from top to toe in black. Nor, for that matter, is it stated that women should be denied an equal say in decisions of state.

Saudi Arabia, it should be stressed, is exceptionally behindhand. Yet, compared with most of their western sisters, Arab women elsewhere still, on the whole, enjoy fewer rights. But they have generally been gaining ground apace. And there are now numerous examples in the Muslim (but not yet in the Arab) world where, without in any way disavowing Islam, women have actually headed governments: for instance in Bangladesh, Indonesia, Pakistan and Turkey.

It cannot be denied that there are problems, for liberals and supporters of full female emancipation, with the application of *Sharia*, the body of laws deemed to derive from the Koran, in those countries where the judicial system is wholly or partly based on it. Laws of inheritance, the relative weight of evidence given in court by men and women, rights of divorce and of children's custody—these, if taken literally, all diminish women. But there is far more flexibility and fuzziness, even here, than the conservatives concede. *Sharia* is not an actual code nor is it clearly defined; it is merely a basis for a system inspired but not dictated by the Koran. It is certainly not incumbent on all good Muslims to insist that the government use *Sharia*—or indeed the Koran—as the sole source of law. And both are open to wide interpretation, as they should be, to meet the changing demands of modernity.

Christians hardly need reminding that for centuries they fought bloody wars over competing versions of their faith, and bodies such as the Catholic Inquisition testify to the cruelties that can flow, within any religion, from a dogmatic determination to impose a particular set of beliefs. Over the years, however, a separation of church and state has helped to nurture individual creativity alongside reasonable governance under temporal laws. A wider measure of separation of mosque and state would probably provide similar benefits, as it has done, for instance, in Turkey.

In the end, democracy, entailing a freedom of choice, is the prerequisite, for Muslims as much as anyone else, for creating a society that is both cohesive and fair. There is no reason why Muslim Arabs, women included, should not have the democratic freedom enjoyed by people of other faiths. It would, after all, liberate men too.

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The European elections

A plague on all their houses

Jun 17th 2004
From The Economist print edition

Europe's politicians should heed their voters' dissatisfaction

ELECTIONS often tell you more about what people are against than what they are for. So it is with the European ones that took place last week in all 25 European Union member countries. These elections, widely trumpeted as the world's biggest-ever multinational democratic vote, were fought for the most part as 25 separate national contests, which makes it tricky to pick out many common themes (see article). But the strongest are undoubtedly negative. Europe's voters are angry and disillusioned—and they have demonstrated their anger and disillusion in three main ways.

The most obvious was by abstaining. The average overall turnout was just over 45%, by some margin the lowest ever recorded for elections to the European Parliament. And that average disguises some big variations: Italy, for example, notched up over 70%, but Sweden managed only 37%. Most depressing of all, at least to believers in the European project, was the extremely low vote in many of the new member countries from central Europe, which accounted for the whole of the fall in turnout since 1999. In the biggest, Poland, only just over a fifth of the electorate turned out to vote. Only a year ago, central Europeans voted in large numbers to join the EU, which they did on May 1st. That they abstained in such large numbers in the European elections points to early disillusion with the European Union—as well as to a widespread feeling, shared in the old member countries as well, that the European Parliament does not matter.

Disillusion with Europe was also a big factor in the second way in which voters protested, which was by supporting a ragbag of populist, nationalist and explicitly anti-EU parties. These ranged from the 16% who backed the UK Independence Party, whose declared policy is to withdraw from the EU and whose leaders see their mission as “wrecking” the European Parliament, to the 14% who voted for Sweden's Junelist, and the 27% of Poles who backed one of two anti-EU parties, the League of Catholic Families and Selfdefence. These results have returned many more Eurosceptics and trouble-makers to the parliament: on some measures, over a quarter of the new MEPs will belong to the “awkward squad”. That is not a bad thing, however, for it will make the parliament more representative of European public opinion.

But it is the third target of European voters' ire that is perhaps the most immediately significant: the fact that, in many EU countries, old and new, they chose to vote heavily against their own governments. This anti-incumbent vote was strong almost everywhere, but it was most pronounced in Britain, the Czech Republic, Germany, Poland and Sweden. The leaders of all the four biggest European Union countries,

Tony Blair in Britain, Jacques Chirac in France, Gerhard Schröder in Germany and Silvio Berlusconi in Italy, were each given a bloody nose by their voters.

The big question now is how Europe's leaders should respond to this. By a sublime (or terrible) coincidence, soon after the elections, and just as *The Economist* was going to press, they were gathering in Brussels for a crucial summit, at which they are due to agree a new constitutional treaty for the EU and to select a new president for the European Commission. Going into the meeting, most EU heads of government seemed determined to press ahead with this agenda regardless of the European elections—even though the atmosphere after the results may make it harder for them to strike deals.

Not the time for “more Europe”

Yet it seems wrongheaded to press ahead with “more Europe” in response to election results suggesting that many voters want less. Whatever one thinks about the rights and wrongs of the new constitution, it is highly unlikely that such a long-winded and incomprehensible document will help to bring the European Union closer to its citizens, or to cure the disillusion with Brussels that has become so firmly entrenched all round the continent. It could even make it worse—as some referendums on the constitutional treaty will doubtless show.

A more fundamental and popular issue, however, is the economy, and that is where the most drastic medicine for Europe is needed. It is especially so in Europe's biggest economy, Germany, whose sluggish performance blights that of others. If you exclude Germany from the euro area's numbers, (see article) Europe's performance does not look too bad compared with America's. But Germany accounts for a third of Europe's output. And even other countries that have fared better have huge concerns over high unemployment, high taxes, ageing populations and deteriorating public services.

What is vital is that Europe's leaders—especially Germany's Mr Schröder—do not respond to the voters' battering by slowing down or stopping the economic reforms that they have, somewhat grudgingly and belatedly, begun to undertake. Often reforms can be unpopular when they are first brought in. But in the long run, they are essential to boost growth. Europe's leaders should now redouble their efforts to implement the so-called Lisbon agenda, which was meant to promote competition and market liberalisation across the EU, since this is the only sure way to revive their economies—and so to regain their voters' support.

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Fiscal outrages in America

Veto one for the Gipper

Jun 17th 2004
From The Economist print edition

President Bush should stop Congress's ghastly new corporate tax bill

GEORGE BUSH has spent much of the past two weeks dropping heavy hints that he is the true ideological heir of Ronald Reagan—the champion of a muscular foreign policy, small government and free markets. Yet on the domestic front he has done more to mock Mr Reagan's memory than to honour it. The ersatz Reaganaut has doled out record subsidies to farmers, boosted spending on the country's bankrupt Medicare system and generally shown little aversion to expanded government. Now Mr Bush has a chance to do something to prove that his claim to Reagan's legacy is more than just empty rhetoric.

One of Mr Reagan's most important domestic achievements was the 1986 Tax Reform Act, which flattened rates, simplified the rules and removed countless loopholes for firms and individuals. Now Congress is close to passing a corporate tax law that does pretty much the opposite: it will confuse and distort the tax code, increase the number of loopholes and dole out pork in obscene quantities. The Senate passed its version of the bill in May; the House looked set to pass a slightly different version as *The Economist* went to press. Mr Bush should make it clear that neither of these monstrosities should become law.

The power of pork

As so often, this legislative monstrosity began with a sensible goal: to repeal a $5 billion annual tax break for American exporters that the World Trade Organisation in 2002 ruled was an illegal subsidy. The WTO gave the European Union the right to impose up to $4 billion of retaliatory tariffs on American goods until the tax break was removed. After much sabre-rattling, the Europeans finally slapped 5% tariffs on a slew of American goods in March, and promised to raise them by one percentage point every month for a year. These tariffs forced Congress into action.

In theory, Congress had a perfect opportunity to emulate the 1986 tax package. The money saved by removing the illegal subsidy could have sweetened a broader corporate-tax reform, lowering rates and eliminating loopholes. Although some firms that get the tax subsidy might have lost out, America's economy would have been better off. In practice, rather than embracing the cause of tax reform, Congress decided to look for other ways to compensate the exporting firms. With an election looming, this soon became a free-for-all, with politicians rushing to buy off voters and lobbyists coming up with ever longer lists of endangered companies.

The bill's backbone in both the Senate and House versions is a throwback to 1970s industrial policy—a cut in the corporate tax rate for manufacturing. Yes, the idea is to distort the tax code to favour specific

industries (and thus also to distort American firms' investment decisions). And, thanks to all those lobbyists, “manufacturing” (in the House bill) is defined to include farmers, film-makers and oil refiners among others. Small wonder America's tax-collection agency has called the bill impossible to implement.

Go on: save the fishing-tackle-box industry

Then there are the special favours. The 1,000-page Senate bill doles out tax breaks to such deserving causes as Oldsmobile dealers, foreign punters at American race-courses and NASCAR track owners. The House version includes tax relief for bank directors, alcohol distillers, producers of fishing-tackle boxes and sonar fish-finders. It also offers a $9.6 billion “buy-out” to tobacco farmers and allows residents of states with no income tax to deduct their state sales-tax payments from their federal taxes, at least for two years. (Ironically, Mr Reagan got rid of this deduction in the 1986 Tax Reform Act.)

Both bills make an attempt to reduce the cost of these giveaways by declaring many of them to be temporary. This is the same fiscal trick that Mr Bush used with some of his tax cuts. In Washington “temporary” tax breaks have a habit of becoming permanent. If that is the case, one budget-watchdog organisation reckons that the House version of the corporate tax bill could cost more than $220 billion over the next decade.

Reason may yet prevail during the “conference” session, when the politicians try to reconcile the House and Senate versions. That could be the moment to strip out the pork and the primitive industrial policy. But this will happen only if Mr Bush, who incidentally has yet to veto anything (unlike Mr Reagan), makes it clear that he will chuck the current versions into the Potomac.

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Letters

Jun 17th 2004
From Economist.com

The Economist, 25 St James's Street, London SW1A 1HG
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Come to my party

SIR – In your haste to emphasise the sensational elements of America's Libertarian Party you paint an incomplete picture of libertarianism and fail to consider seriously the party whose economic policies most closely resemble those espoused by *The Economist* ("Badnarik victorious", June 5th). Your characterisation of Libertarians as "pro-dope" and "pro-choice" misses the point. Unlike most other groups, the Libertarian Party has no desire to wield government's heavy hand to advance pet social causes. Libertarians believe that most issues now preoccupying federal lawmakers, such as drugs and abortion, are beyond the scope of the federal government's legislative authority.

Libertarians decry protectionism, inefficient bureaucracy and inexplicable tax schemes. As you mull over which presidential candidate to endorse, you may want to consider one from a party that would phase out agricultural subsidies, privatise Social Security and open more fully the world's largest market to free trade. And if you favour ideological consistency, you may find that Michael Badnarik is your man.

Peter Christofferson
Dallas

America's war record

SIR – Charlemagne quotes German and French leaders as saying that America lacks a Stalingrad or a Verdun (June 5th). He also cites Fénelon's quote from the Caen Memorial, "All war is always civil war", and a poll that only about 12% of French or Germans felt it would ever be appropriate to go to war to achieve "justice".

I wish I could invite these sceptical Europeans to stay at my place for a bit. Gettysburg, Antietam, the Wilderness, Fredericksburg, Cold Harbour and the trench lines of Petersburg are all day trips from here. America does know something about fratricide and wars that devastate a generation. But we are also a nation created and defined by the revolution and civil war. Charlemagne fails to ask one critical question: what possible use as military allies are democratic nations that no longer believe in anything enough to fight for it?

Robert Piepenbrink
Woodbridge, Virginia

Gutt feeling

SIR – Rodrigo Rato is not the first professional politician to lead the IMF ("The new man at the Fund", June 5th). Camille Gutt may not have considered himself a professional politician but he was a member of Belgium's government before the second world war, and a member of the Belgian government in exile in London during the war. In 1944 he launched the deeply unpopular "Gutt operation" which drastically cut the money supply, brought stability and helped to pave the way for the short-lived Belgian miracle. And Johannes Witteveen was the Dutch minister of finance several times before going to the Fund.

Jan Bohets
Kampenhout, Belgium

PPPoor measure

SIR – You are wrong to say “most economists agree” that, apart from measurement problems, purchasing-power parity (PPP) is the correct way to measure global output (“Food for thought”, May 29th). First, some of the measurement problems are not incidental; they are intrinsic to the concept, reflecting both the difficulty of finding truly comparable goods and services in different countries, then deciding how to weight them. Expenditure patterns vary radically across countries, particularly between rich and poor countries.

Second, how best to measure global output depends on the purpose of the measurement. Some variant of PPP is surely needed to compare standards of living across countries but for that we do not need global output. If we are interested in the vigour of global demand, national demand (and output) must be added by using market exchange rates, not PPP rates. Purchasing power in the international market, whether it is for flour or oil, occurs through market exchange rates. Thus China's contribution to world demand at market rates would give it greater apparent weight in the world economy than in fact it has. Indeed, GDP calculated at PPP rates, which, in effect, values similar products at the same price wherever they are, ignoring all rents and transport costs, is not a meaningful number.

Richard Cooper
Cambridge, Massachusetts

Snowball effect

SIR – You argue of Venezuela that the “prospects for a peaceful solution...looked as solid as a snowball in a microwave” (“Authenticated, but not quite agreed”, June 5th). Having once tried to keep a toilet functioning by attempting to melt snow in a microwave, I can tell you that this does not work very well, though it seems as if it should. Perhaps this bodes well for the chances for representative democracy in Venezuela?

Brad Hays
Indianapolis, Indiana

Free trade failing

SIR – There are good reasons for anxiety about the Central American Free-Trade Agreement (CAFTA) among female workers in the region (“Five get anxious”, May 29th). CAFTA pays lip service to International Labour Organisation codes but in practice female workers—who will take up the bulk of the badly paid jobs created under the agreement—will continue to be denied the right to go to the toilet and will be sacked when they become pregnant. A female worker from Nicaragua recently spoke of how her employer, a Taiwanese company, exercises its “corporate social responsibility” with an internal code of conduct displayed some 20 feet up a wall and written in Chinese. She expects no improvement, alas, under CAFTA.

Graham Bennett
Director
One World Action
London

The costs of containment

SIR – Your article on America and the Middle East would have benefited from assessing the costs of the previous strategy of containment for Iraq (“Fumbling the moment”, May 29th). Saddam Hussein murdered over 200,000 people after the Gulf war, Bill Clinton's military containment cost billions and economic sanctions probably killed many Iraqis, while some righteous European countries profited from them.

We all agree that the Americans have made many mistakes, yet the situation in Iraq is far from a total failure. Most of the critics of American intervention fail to recognise these costs explicitly, while expecting perfection from Americans in an extremely difficult situation.

Marcio Ronci
Bethesda, Maryland

Mad as a hatter

SIR – Vincent Jolivet defends the wearing of bow-ties with the specious argument that “Winston Churchill wore bow-ties” (Letters, June 5th). Well, Abraham Lincoln was known for wearing top hats and I do not believe that anyone choosing to run around sporting one of those would be considered anything other than a lunatic.

William Gantt
Atlanta

ONLINE ARTICLES

The following correspondence refers to articles published only online

A moment in history

SIR - While many who would deify Ronald Reagan praise his being “tough” against communism and terrorism (“The first post-Enlightenment president?”, Economist.com, June 7th), I am thinking about the 241 Marines who were killed when their barracks were bombed in 1983. President Reagan's tough response was to abandon Lebanon. It is only now that we know this was a seminal event in Osama bin Laden's career; it was the moment he saw the United States as a paper tiger. The larger-than-life image of a president who secretly sold missiles to terrorists in exchange for hostages and who used the money to conduct a war prohibited by our United States Congress deserves adulation for just one thing: the stagecraft of a Hollywood icon.

Bruce Joffe
Piedmont, California

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Arab women

Out of the shadows, into the world

Jun 17th 2004 | BEIRUT, CAIRO AND RIYADH
From The Economist print edition

AFP

Slowly, but sometimes showily, the female half of the population is beginning to find a voice

IT WAS called a “national dialogue”, but to western eyes it was a strange kind of conversation. From June 13th-15th, in Medina, Saudi Arabian women and men discussed how women's lives could be improved. The women, however, were invisible to the men, except on a television screen.

From kindergarten to university to the few professions they are permitted to pursue, as well as in restaurants and banks and in other public places, the female half of Saudi Arabia's population is kept strictly apart. Women are not allowed to drive a car, sail a boat or fly a plane, or to appear outdoors with hair, wrists or ankles exposed, or to travel without permission from a male guardian. A wife who angers her husband risks being “hanged”; that is, suspended in legal limbo, often penniless and trapped indoors, until such time as he deigns to grant a divorce. And then she will lose custody of her children.

The 19 recommendations that went to Crown Prince Abdullah on June 15th would change matters somewhat, if they are ever enacted. Participants asked for special courts to deal with women's issues, more women's sections in existing courts, and a public-transport system for them. They wanted more education, more jobs and more voluntary organisations dealing with women's issues. Amid much vague good feeling, the phrase that recurred was “more awareness”—not just of women's rights, but of women as human beings.

Saudi Arabia certainly presents male chauvinism at its worst. Yet it is a mistake to imagine, as many westerners do, that Arab women as a whole suffer strictures as tight as their Saudi sisters'. It is equally incorrect to judge the donning of veils and headscarves—attire that is optional everywhere save in Saudi Arabia and non-Arab Iran—to be a sign of exclusion. For some it is simply a personal expression of religious devotion; for others, a means of escape from the tyranny of fashion.

It is even wrong to assume that life for the purdahed women of Saudi Arabia is necessarily hard. Boring, yes, and cluttered with minor annoyances, but also full of compensating richness. Many Saudi women take pride in the protectiveness, family-centredness and Muslim piety of their society—aspects that were stressed first in the list of recommendations.

Slowly but surely, too, the lot of Saudi women is improving, just as it has been for women in most Arab

countries. Saudi girls were not even allowed to go to school until 1964. Now, some 55% of the kingdom's university students are female. Similar trends can be seen elsewhere. In Kuwait's and Qatar's national universities, women now make up fully 70% of the student body. Across the wider region, the average time girls have spent in school by the age of 15 has increased from a mere six months in 1960 to 4.5 years today. This may still be only three-quarters of the schooling that Arab boys get, but female education has improved faster in Arab countries than in any other region. Tunisia has narrowed the literacy gap between young men and women by 80% since 1970. Jordan has achieved full literacy for both sexes.

The Arab performance in improving women's health is also unmatched. Female life expectancy is up from 52 years in 1970 to more than 70 today. The number of children borne by the average Arab woman has fallen by half in the past 20 years, to a level scarcely higher than world norms. In Oman, fertility has plummeted from ten births per woman to fewer than four. A main reason for this is a dramatic rise in the age at which girls marry. A generation ago, three-quarters of Arab women were married by the time they were 20. That proportion has dropped by half. In large Arab cities, the high cost of housing, added to the need for women to pursue degrees or start careers, is prompting many to delay marriage into their 30s. Again, that is not much different from the rest of the world.

Houris and hijabs

Outsiders may think of Arab women as shrouded, closeted ghosts, but the images that come to Arab minds these days are likely to be quite different. Flick on a television in Muscat or Marrakesh, and you find punchy, highly competent and pretty female presenters. Competition between Lebanese television networks is so keen that their gorgeous weather-announcers, pantomiming, say, rain on the mountains, can be rather startling. More eye-opening still is the procession of video clips on the many highly popular satellite channels broadcasting round-the-clock Arabic pop music. Strapless *houris* (beauties), such as Lebanon's Nancy Ajram and Egypt's Ruby, croon and gyrate with scarcely less abandon than their western prototypes.

True, such imagery remains deeply controversial, and not just to feminists. In relatively open-minded Egypt, the state broadcasting monopoly has banned the more provocative female stars and has forbidden costumes that reveal belly buttons, saying they corrupt the country's youth. The saucy video clips are regularly blasted at Friday sermons in the mosques.

It is also true that provocatively clad starlets are hardly representative of Arab womanhood. Broadly speaking, the percentage of Arab women who wear some form of *hijab*, or veil, does seem to be inching upwards. Numbers vary hugely, however, from around 10-20% in Lebanon or Tunisia to perhaps 60% in Syria and Jordan, to 80% in Kuwait and Iraq. In rural Egypt, the near-universal adoption of the veil in recent years is as much a reflection of city fashions creeping into the countryside (where women traditionally worked in the fields unveiled) as of rising conservatism. The popularity of veils in Egyptian cities, meanwhile, is partly due to a rise in the number of women who leave home to work or study. In a sense, for traditional families the *hijab* is a sort of convenient half-way station to fuller freedom.

At the same time, the late-night club-culture of cities such as Cairo, Dubai and Beirut is thriving as never before. Even those women who shun the packed bars and discos may now venture into the cafés, once a male preserve. The sight of groups of women smoking waterpipes has become quite common. Such delights have helped attract a fast-growing number of tourists, especially Gulf Arabs, for whom the free mingling of sexes is itself a spectacle. Inevitably, these looser strictures have an influence back home.

Those other modern media, the internet and the mobile phone, increasingly reinforce such shifts in attitude. Hard as it may still be to meet members of the opposite sex openly, ever-growing numbers of young Arabs are chatting, flirting and even getting hitched over the ether. And that is the innocent side. This correspondent's wholly unscientific survey of internet cafés in several Saudi cities revealed that virtually all the websites recorded as “favourites” were blatantly pornographic.

Even the many Arabs who dismiss MTV and on-line dating as the preserve of gilded, westernised youth will admit that female role-models have changed a great deal. In all but three out of 22 countries in the Arab League, women have the right to vote and run for office. (Recall that the Swiss canton of Appenzell did not grant such rights until 1991). Arab women also work as ambassadors, government ministers, top business executives and even, in Bahrain, army officers. A fifth of Algeria's Supreme Court judges are women, and women hold 15% of the top judicial posts in Tunisia. Even in Saudi Arabia, Lubna Olayan heads the kingdom's leading private industrial group, and Thoraya Obeid runs the UN's family-planning

agency, though admittedly in New York.

The darker side

Yet Arab women should not rest complacent. It is for good reason that the UN's devastating, and much-quoted, Arab Human Development Report cites women's rights, along with education and governance, as the main challenge facing the region. Statistics cannot easily capture, for example, the fact that the very idea of an unmarried woman living alone remains taboo in all but a few Arab countries. Numbers do not adequately measure the harassment that “immodest” dress routinely attracts in most Arab cities, or the destructive social impact of habits such as female circumcision (still practised widely in Egypt and Sudan), polygamy (sanctioned by Islam, yet rare except in the wealthy Gulf states), or “honour killings” (sanctioned by tribal custom, not religion, and declining—but in Jordan, more than 20 women are still murdered by their own suspicious relatives every year).

The numbers can still be revealing, though. In Egypt, a recent study showed that among families with low levels of education, baby girls are twice as likely to die as baby boys. In Yemen, the illiteracy rate among young women (54%) is three times that of men. And as for those proud Saudi women who are now earning most of the kingdom's university degrees, their prospects of careers are dim. Barely 6% of the country's workforce is female. Across the Arab region as a whole, only a third of adult women have jobs, compared with three-quarters of women in East Asia.

Just as disturbingly, movement towards equality in some Arab countries has shunted into reverse. Such is the case of Iraq, a country that during the 1960s and 1970s was in the vanguard of progress. Saddam Hussein's two decades of war and sanctions crushed the life out of the country's once large and rich middle class. Their decline discredited social models, such as the nuclear family, which had begun to replace the old patriarchal clan system. The lot of most Iraqi women has worsened even more dramatically since the war. In the cities, women are simply afraid to go out alone. The rise of religious radicalism has prompted many to adopt the veil, out of fear as much as conviction.

Even in more peaceable Arab countries, the gains women have made are not fully secure. As far back as the 1950s, for example, secularist Tunisia granted women full equality, going so far as to contravene Islam and ban polygamy. With their rights to vote, divorce, work in any profession and so forth, Tunisian women remain the envy of Arab feminists elsewhere. Yet they themselves complain that male attitudes have not really changed. A Tunisian sociologist notes a trend by wealthy men to seek brides from poor villages, since city women are “too independent”. And the incidence of wife-beating remains high.

Egypt was another Arab pioneer in women's rights. The first Arab feminist manifesto, “The Liberation of Woman”, was published in Cairo in 1899. By the 1920s, society women were dropping their veils; by the 1960s, the country had more female doctors than many in the West. But progress stalled in the 1980s, when the parliament scotched a law that would have ensured nearly full sexual equality.

Discriminatory laws still hinder women's progress in many other countries. Algeria's 1984 family statutes give men an automatic right to divorce, with no legal obligation to their former spouse. In all but a few Arab countries, citizenship may only be passed on by the father of a child, not its mother. Similarly, custody of children customarily goes to the father, a fact that comes into tragic prominence every year in consulates across the region, when the foreign divorcees of Arab men discover that they may lose their children. And Islamic inheritance law grants female heirs only half the portion given to males.

Islam's importance

Outsiders commonly assume that Islam itself is the cause of sexual inequality in the Arab world. This is not strictly true. Earlier this year, for instance, Morocco adopted a progressive family status code which, among other things, grants both sexes equal rights to seek divorce and to argue before a judge for custody of children. It also places such tight conditions on polygamy as to render the practice virtually impossible. Yet the new law won backing not just from King Muhammad VI, who declared it to be “in perfect accordance with the spirit of our tolerant religion”, but also from the country's main Islamist parties.

Still reluctant

Arab attitudes toward improving the rights of women, % "seriously concerned"

	TOTAL	Aged 18-29	Aged 30+	Male	Female	Secondary education or less	University or more
Lebanon	55	57	55	50	59	52	58
Jordan	41	48	43	25	53	34	49
Kuwait	51	54	49	40	54	37	73
UAE	34	43	28	29	34	30	43
Morocco	49	53	45	43	52	21	78
Saudi Arabia	70	72	69	73	68	52	87
Egypt	51	47	54	53	52	44	58

Source: Zogby International

In Kuwait, too, religion is being used to push reform. Five years ago, Islamists in the country's parliament blocked a law that would have granted women the right to vote and run for office. The same law is being tabled again this year, but this time several Islamist MPs have defected to the liberals. One reason is a *fatwa* recently issued by a prominent cleric, which questions the reliability of the source who, 14 centuries ago, reported the Prophet Muhammad as saying "A nation commanded by woman will not prosper."

Aside from giving them the short stick on inheritance, and having their testimony in law considered half as weighty as men's, and letting husbands marry up to four wives, whom they may beat if they are disobedient, the Koran itself is not unkind to women. Centuries before Christian women in the West, Muslim women freely enjoyed full property rights. In many Arab societies, it has been customary to evade statutory inheritance laws by simply signing over property to female relations before your death.

The trouble, in places like Saudi Arabia, lies more in how the holy text—as well as the *hadiths*, or Prophet's sayings, that inform the *Sharia*—are interpreted. Such texts are often not so much interpreted, as twisted to fit pre-existing traditions. The ban on driving, for instance, is unique to Saudi Arabia. Yet even Saudi clerics are hard-put to find support for the rule in holy scripture. (And in any case, according to one survey, 29% of Saudi women say they already know how to drive.)

The extreme Saudi phobia regarding *ikhtilat*, or mixing of the sexes, also has no textual justification. And although the Koran mentions modesty in dress, how much is a matter of opinion. Most scholars agree that *hadiths* about fuller covering relate to the Prophet's own wives. Whether to follow their example should be a free choice, as indeed it is in most Muslim societies.

Some countries, such as non-Arab Turkey and Tunisia, have simply bypassed such questions by imposing fully secular laws. For the time being, Arab public opinion is strongly opposed to this; the link to Islamic roots is seen as essential. Yet when it comes to women's rights, the evidence is that Arabs, even the men among them, acknowledge the need for improvement. In a 2002 survey of social attitudes carried out in seven Arab countries by Zogby International, 50% of respondents considered the improvement of women's rights a high priority (see chart). Significantly, the firmest support for change came from Saudi Arabia.

The reformers will eventually get their way. Saudi women are, in fact, already chalking up important gains. Last month they were granted the right to hold commercial licences, a significant advance considering that women own a quarter of the $100 billion deposited in Saudi banks, with little opportunity to make use of it. In 2001, they won the right to have their own identity cards (though a male guardian must apply for them). Saudi businesswomen spoke eloquently, to long applause, at a major conference in Jeddah earlier this year. Since January, Saudi state TV has employed female

newscasters.

The kingdom's best-known TV personality also happens to be a woman. Rania al-Baz won further fame earlier this year when her husband beat her almost to death. Instead of staying silent, as her mother would have done, Mrs al-Baz invited photographers into her hospital room to show the world her broken face. She has now formed a group to combat the abuse of women in Saudi Arabia.

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The Bush administration and the torture memo

What on earth were they thinking?

Jun 17th 2004 | WASHINGTON, DC
From The Economist print edition

Getty

Why the debate on torture will not go away

FOR a moment last week, the clouds parted for George Bush. After months of bad news, he stepped out at the G8 summit and at Ronald Reagan's dignified funeral with a UN endorsement of his plan for Iraq, backing for his “Broader Middle East” initiative and the fastest nine-month period of economic growth since 1984.

Mr Bush even had some modestly good news from the polls. Admittedly, John Kerry is still ahead in the horse race—but by little more than in May. Moreover, the “generic ballot” (between the parties in the race for Congress) shows Democrats an amazing 19 points ahead—an alarming figure when it is rare for either side to be more than ten points up. And 58% do think the country is on the wrong track, compared with 34% who think it is on the right one. But the long decline in the president's ratings seems to have bottomed out.

In one or two areas, Mr Bush's numbers have perked up. A Gallup poll showed his overall approval a couple of points higher; ditto his rating on the war on terror. Mr Bush is holding on to his core strength as commander-in-chief while the economy booms.

But as Harold Wilson once remarked, a week is a long time in politics. Normal service has just resumed. The past few days have seen bombs in Baghdad; the worst act of sabotage so far against Iraqi oil installations; claims by interrogators at Abu Ghraib that they reported instances of prisoner abuse earlier than senior officers have admitted; and a disagreement between the American and Iraqi governments on how and when to transfer Saddam Hussein to Iraqi jurisdiction.

Back home, a bipartisan group of former diplomats and military officials released a stinging criticism of Mr Bush's “overbearing” approach to foreign policy. And, as E.J. Dionne, a columnist, has pointed out, Mr Bush's re-election team—in a sure sign that it feels on the defensive—has stopped pointing out differences between the president's record on national security and Mr Kerry's; instead, the White House has started to accuse the Democrat of “me-too-ism” on Iraq (implying he would be no better).

All this, to some extent, is the mixture as before: the drip-drip of bad news. What is new and more embarrassing for Mr Bush is detailed evidence that the main source of legal opinion for his administration—the office of legal counsel in the Department of Justice—has been giving advice that

Americans may (in the normal sense of the term) torture people abroad.

Last week, senators questioned John Ashcroft on this issue—and the attorney-general refused to hand over the memo in question. But in another sign that the administration's power over its subordinates is slipping, somebody leaked the full text to the *Washington Post.* The details make ugly reading for any friend of America.

The memo, which dates from August 2002, looks at the sections of the legal code (2340-2340A) which implement the UN Convention against Torture. It claims torture can be justified on three grounds.

First, it narrows the definition of torture, saying American law “was intended to proscribe only the most egregious conduct.” It is not controversial to say torture should be defined strictly. The UN convention says the pain inflicted must be “severe”. And the memo correctly identifies an important legal difference between torture and cruel and inhuman punishment. For instance, the European Court of Human Rights said Britain had used cruel treatment in Northern Ireland—hooding, sleep deprivation and so on—but that these things did not amount to torture.

Even so, the memo goes further than most ordinary opinion would in defining torture as “equivalent in intensity to the pain accompanying serious physical injury, such as organ failure, impairment of bodily function or even death.” On the face of it, that means sliding needles under fingernails or holding someone's head under water to the point of drowning would not count as torture under the law.

Constitutionally, its second argument is no less striking. This is that the president can do whatever he wants in war, or, as the memo puts it, “enjoys complete discretion in the exercise of his commander-in-chief authority.” Interrogations, the memo says, are a “core function of the commander-in-chief.” Hence “we will not read a criminal statute as infringing on the president's ultimate authority in these areas.”

This comes near saying that the president is above the law when acting as commander-in-chief in wartime. No other president has made such a claim. The constitution gives Congress power to “make rules for the government and regulation of the land and naval forces.” This contradicts claims of untrammelled presidential authority. When Harry Truman tried to seize Youngstown Sheet and Tube in 1952 to prevent a steel shortage during the Korean war, the Supreme Court stopped him.

In addition, the memo claims the particular law in question (2340) cannot apply because it offends against presidential power. This law governs the activities of Americans abroad, so it applies almost entirely to soldiers and spies—people under the president's command. In other words, the memo argues that the law cannot really apply at all. Yet there is a long tradition in the United States against interpreting laws in such a way as to render them meaningless.

The memo's third argument is that, in rare cases when acts are so egregious that they amount to torture, and do not challenge presidential power, torturers are still able to claim immunity. They could only be prosecuted if it were shown their main intent was to inflict pain. If they intended to extract information (presumably the point for all but sadists), that would be a defence under American law according to the memo. It also says they can use “self defence” to justify actions that might have prevented further attacks on America. International law admits the defence of “necessity” in the case of someone with information about, say, a ticking suicide bomber or imminent threat. But the memo goes far beyond that.

Ruth Wedgwood, a professor of international law at Johns Hopkins University (and often a defender of the Bush administration), points out that the memo defines its task oddly. Instead of looking at “what is the law governing torture?” it asks “what can we do and remain within the law?” As a result, the memo either ignores or glides over American and international laws that ban or limit torture. For instance, America has signed the Geneva conventions, one article of which says combatants in unconventional conflicts are not prisoners of war but “shall in all circumstances be treated humanely”. The memo claims this refers only to civil wars—a highly contentious view. It also ignores customary law banning torture even though America is using such law against al-Qaeda suspects in its military commissions. And it even ignores the president's own statement of June 2003: “the United States is committed to the worldwide elimination of torture and we are leading this fight by example.”

Given this eccentricity, it might be argued that these legal controversies do not matter. The memo was just one lawyer's opinion, not public policy. And it is true that Donald Rumsfeld, the defence secretary, who had authorised tougher interrogation methods in Afghanistan and Iraq, later changed his mind. A description of what is now permitted also appeared in the *Washington Post* last week—and the authorised

techniques seem to fall well outside even normal definitions of torture, let alone the narrow ones used in the memo.

The trouble is that this one lawyer worked in the office that provides legal opinion for the whole administration. His views were solicited by someone up the chain of command (it is not known who). They subsequently informed a Pentagon report on interrogations. They were not a one-off. Even if policy did not change, the memo undermines the administration's “rotten apples” defence in Abu Ghraib.

Lastly, Mr Bush's reaction was not reassuring. Asked about the memo, he said “the instructions went out to our people to adhere to law. That ought to comfort you.” Now the instructions can be read, it is hard to be comforted. The unease they cause is likely to dog Mr Bush for some time.

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Selling America overseas

Sorry, we won't re-elect him

Jun 17th 2004 | WASHINGTON, DC
From The Economist print edition

An apology from America—and a sign of life on the religious left

THIS week, two Arab TV networks, al-Jazeera and al-Arabiya, broadcast a new advertisement—an apology on behalf of "Americans of faith" to Muslims for the "sinful and systemic abuses" committed at Abu Ghraib prison. The ad, which stars a Catholic nun, a Protestant minister, a rabbi and an imam who "pledge to work to right these wrongs", says it "was endorsed and paid for by thousands of Americans."

A different kind of moral majority?

This freelance diplomacy is the work of FaithfulAmerica.org—and reflects a sentiment among members of the National Council of Churches that the Bush administration should be more contrite about Abu Ghraib. "I feel George Bush's statement was not an apology but an attempt to shift the blame to the rank-and-file soldier," says Bishop Melvin Talbert of Mr Bush's own United Methodist Church. "He apologised for a few rogue soldiers, but not for the policies that allowed these disgraces to occur."

FaithfulAmerica.org bears some resemblance to MoveOn.org and the various other grass-roots organisations devoted to ridding the country of Mr Bush. But there are also differences. Rather than relying on the likes of George Soros to pay its bills, the religious outfit gets most of its money from small donations (the average amount is $30).

It also points to an attempt by the religious left to balance the far more noisy religious right which provides so many of Mr Bush's staunchest supporters. The Centre for American Progress, a left-leaning think-tank, has started a project to push more religious Democrats into the public debate. Another group, the Clergy Leadership Network, is raising money to push leftish issues in the campaign. The religious left has a long history in American politics (the civil-rights revolution, for instance); but in recent times it has been more prone to opine on the evils of, say, militarism and global poverty than to intervene in domestic elections.

Can a more militant religious left balance Mr Bush's footsoldiers on the right? Democrats point out that polls show almost one in four Evangelicals nominally support their party; and, back in 1992, Bill Clinton won a third of the Evangelical vote. But in recent elections there has been a high correlation between the number of times people go to church and their tendency to vote Republican. The religious left has a lot of work to do.

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Fires in the west

They're waiting for the big one

Jun 17th 2004 | SEATTLE
From The Economist print edition

Will this year see yet another series of forest blazes?

AT THE start of this summer, Michael Dondero, chief of fire and aviation for the Humboldt-Toiyabe National Forest in Nevada, checked, as he always does, the instruments that measure humidity in his forest. To his dismay, the forest was as dry in mid-May as it should have been in late June. This was at least as bad as the figures for 1988, 1998, 2000 and 2002—all terrible years for forest fires.

Similar fears are being voiced throughout the west. The same five-year drought that is prompting talk of water rationing in Los Angeles and putting landscaping companies out of business in Colorado has left forests parched. Mr Dondero has already had to deal with several fierce blazes: one even jumped an eight-lane freeway. There have been nasty fires in California, New Mexico and Arizona. And the peak season—July and August—is still to come.

It is easy to get blasé about fires: they are as much part of western summertime as baseball. Even a relatively mild fire season, like last year's, can blanket large parts of Montana and Wyoming in late-summer smoke. As usual, optimists are praying for rain, and pessimists are watching out anxiously for "dry lightning" storms, which they fear could set off a record blaze.

The pessimists have the better case, for three reasons. The first is the drought: dry trees are not just easier to burn, they are also weaker, because they are more vulnerable to disease and insects. Roger Pielke, a climatologist with Colorado State University, points out that the west is vulnerable to long droughts: the current weather pattern could last for another two years—or maybe 100. Some climatologists think the drought is the product of a reaction between El Niño, a seasonal climate shift, and a longer-term phenomenon called the Pacific Decadal Oscillation. Others worry about global warming.

There is another argument, about whether a half-century of fire prevention has made things worse. By doing such a good job of stopping fires happening, man has actually prevented nature from cleaning up the underbrush and dead timber. Now some 180m acres of western forests—an area nearly twice the size of California—have unnaturally thick accumulations of young trees and brush, the stuff fire scientists refer to as "fine fuels". The biggest blaze in recent history, the Biscuit fire in southern Oregon, which burned 500,000 acres, fed off this scrub.

Last year, the Bush administration started a $500m-a-year programme to start thinning excess trees. Greens howled that this was an effort to circumvent logging laws. But it currently reduces fire risks on only about 2.5m acres per year.

Now a third worry looms: how will fire-fighters cope without aircraft? A standard feature of all recent big fire-fights has been a fleet of 33 "aerial retardant tankers", old propeller-driven planes that "bomb" blazes with hundreds of gallons of red-tinted chemicals. But, after several crashes, the Forest Service and the Interior Department have pulled back these aircraft, many of which are nearly 50 years old.

That leaves helicopters and some more modern aircraft: but they cannot carry as much liquid. Senators Max Baucus and Conrad Burns of Montana (coincidentally home to one of the larger tanker contractors) are working to reverse the cancellation. If the big one does come, the fire-fighters will need all the help they can get.

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The electoral week

On the trail

Jun 17th 2004
From The Economist print edition

Almost famous

"Who's John Kerry?"

A medical student is underwhelmed by the Democratic candidate on the UCLA campus. Los Angeles Times, *June 13th*

The Bush Witch Project

"Well, we go to different corners of the room, and we face the wall."

President Bush explains how meetings go with leaders of countries that didn't support the war in Iraq, June 10th

You say potato

"Missou-rah."

Gubernatorial candidate Claire McCaskill pronouncing her state in new television ads aimed at rural areas

You say tomato

"Missou-ree."

Ms McCaskill pronouncing the name in ads airing in the state's cities. St Louis Post-Dispatch, *June 15th*

Worse than Bambi

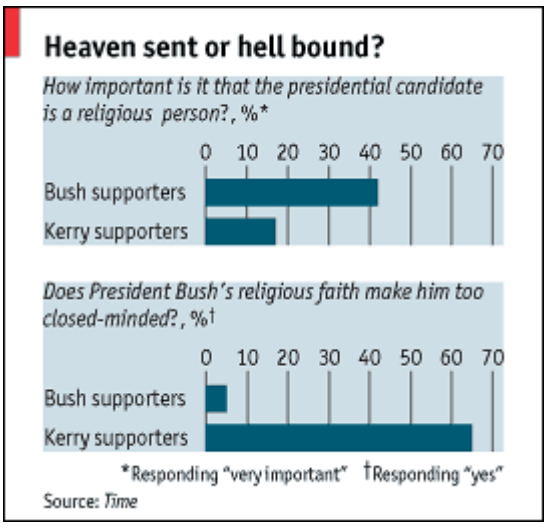
"It's going to break the heart of the *New York Times*, and that also will please me."

George Bush senior on hopes for his son's re-election. USA Today, *June 10th*

Make love, not war

"I thought everybody was going to break out in 'Kumbaya'."

Congressman Rahm Emanuel, a former Clinton aide, on the lovefest during President Bush's unveiling of President Clinton's White House portrait. New York Times, *June 15th*



Campaign promise of the week

“Alcohol is a terrible blight on our country. It hurts people, it causes them to die, and we believe as citizens we need to battle it.”

Prohibition Party candidate, Earl Dodge. Washington Times*, June 14th*

Vive Kerry

“He is like Ted Kennedy...only thinner. A vote for John Kerry is a vote for France.”

French residents in a spoof campaign ad for John Kerry, www.crushkerry.com

Man of the People

“Jon Bon Jovi plays the guitar, I like to play the guitar. Jon Bon Jovi wears a leather jacket, I like to wear a leather jacket. Jon Bon Jovi was one of the 50 most beautiful people in *People* magazine, I like to read *People* magazine.”

John Kerry on his host at a recent fundraiser. Washington Times*, June 15th*

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Swing states

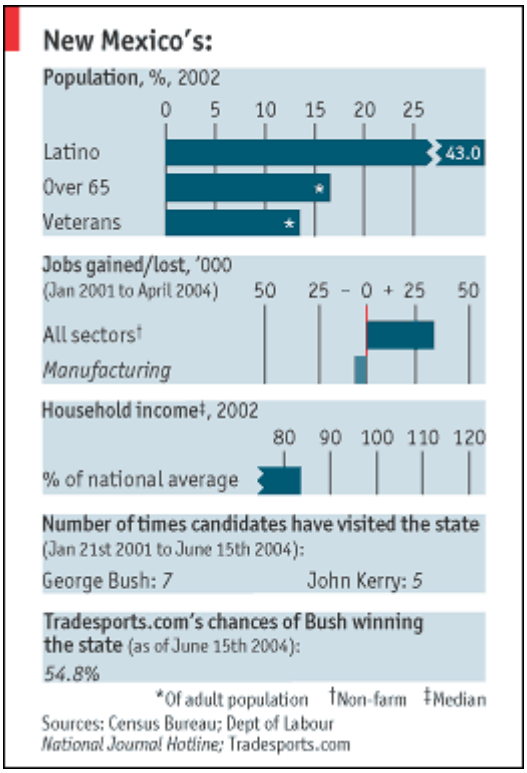
Not really like anywhere else

Jun 17th 2004 | SANTA FE
From The Economist print edition

The seventh in our series on swing states in the upcoming election looks at perhaps the oddest of them all, New Mexico

IN JUST one way, New Mexico is a typical swing state. In 2000, its presidential contest was the closest of all: Al Gore won by 366 votes, or 0.06% of the vote. If there had not been a snowstorm in three mainly Republican counties, George Bush would have won by a corresponding sliver.

In another way, New Mexico can be said to represent America's future. It is the state with the highest proportion of Hispanic people—some 43% of the population. When you factor in Native Americans, it is already a "majority-minority" state. Much of the rest of the country may eventually come to look like it.



Otherwise, New Mexico is not at all typical. It is quite different from California because most of its minorities have been there for ten or 20 generations, rather than one or two. And it is the opposite of Florida, where Democratic-leaning Latino immigrants are offsetting the influence of Republican-leaning whites. In New Mexico, white Republican arrivals are offsetting the influence of indigenous, Democratic-leaning Hispanics. In this sense, New Mexico does not foretell America's future; it reflects a chapter of America's past.

Two-thirds of its Spanish-speakers are descended from families who settled in the isolated northern tip of Spain's New World empire before the Pilgrim Fathers arrived on the east coast. Their language sounds like the one Cervantes used. They are citizens, while 60% of California's Hispanics are not. They never use the word Latino—a useful potpourri term for Spanish-speakers coming from all over the American continent. New Mexico's old Hispanic families describe themselves as Spanish.

This makes the battle for their vote different from the campaign in Florida, California or New York. In New Mexico, Spanish-speakers have their own political institutions. They have sent three of their number to the Senate and three to the governor's office, including the current Democrat, Bill Richardson (who has a Mexican mother). And they vote. Elsewhere in America, Hispanic political influence is muted by low turnout. In New Mexico, the participation rate is 40%. This is lower than the white rate, and it is falling, but it is still far greater than anywhere else.

On top of this, almost a tenth of the population is Indian, mostly Navajo, the largest proportion in the country after Alaska. In New Mexico, "minorities" do not merely form a majority, but a settled majority, resident for 400 or 1,000 years. Whites are first- or second-generation newcomers, whether conservative oil men or left-wing environmentalists. New Mexico may vote like the nation. But it does so because of a distinctive demography and culture.

New Mexico has a tiny population—smaller than that of Phoenix. Chris Garcia, a professor at the University of New Mexico, breaks

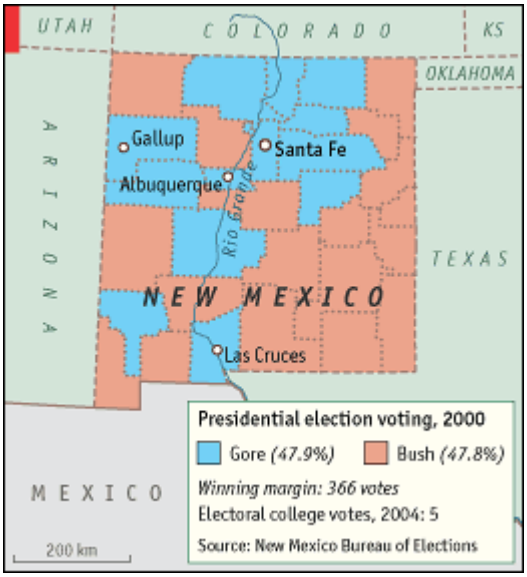
the state down into five regions:

• North-central, around Santa Fe, the capital. Mountainous country, dominated by old Spanish families, socially conservative but a Democratic stronghold, largely for historical reasons.

• The north-west. Indian country: mainly rural, but with a few towns like Gallup. Also Democratic, but with a low turnout and only 12% of the population.

• The east side, or “Little Texas”. Oil and ranching land, settled by conservatives from Texas and Oklahoma. A Republican stronghold, but in the past few years this part of the state has taken in a lot of new immigrants from Mexico.

• The south-west. High desert, around Las Cruces. Also fast-growing and attracting new immigrants. A swing area.



• Albuquerque, the largest city with 40% of the population, and the nearest thing to a Sun Belt boom town: high-tech, suburban and evenly divided. Mr Gore won there by 1,500 votes.

These five areas—two Democratic, one Republican, two swing—cancel each other out. The Spanish families and Indians were members of Roosevelt's New Deal coalition and have remained Democrats since; in almost European fashion, they tend to view the government as beneficent. The Anglo newcomers are more dog-eat-dog individualists.

Richardson land

Since it became a state in 1912, New Mexico has always voted for the presidential winner, with two exceptions: Gerald Ford in 1976 and Mr Gore in 2000 (though he did win the popular vote). The trend is slightly towards the Democrats, but not by enough to make John Kerry confident. New Mexico has grown fast, but the growth is concentrated around the Rio Grande valley, mainly boosting two swing regions, Albuquerque and the south-west, thus making the state even harder to read.

Perhaps because New Mexico's Hispanics are so distinctive, there is not much sign that the Republicans' outreach to them is working well. The party has also been stuck in a fratricidal battle between moderates and conservative activists. There have been three state chairmen in just over a year. But the party's biggest problem is the popular Mr Richardson.

During his gubernatorial campaign in 2002, local Democrats registered 30,000 new voters (they already had a 1.6 to 1 registration advantage). They have raised almost twice as much money as Republicans in this election cycle. Mr Richardson, a former energy secretary under Bill Clinton, has cut taxes and started to reform the schools. He hopes his high approval ratings will deliver the state to Mr Kerry. Perhaps he can do this. But if he does, it will have more to do with the peculiarities of New Mexico than with what is happening in the country at large.

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Lexington

The Clinton revival

Jun 17th 2004
From The Economist print edition

John Kerry should learn a few tricks from an old dog

Get article background

NO SOONER had America said goodbye to Ronald Reagan than it started saying hello again to Bill Clinton. Saying goodbye to the Gipper was a matter of a mere week of ceremonies. Saying hello to Mr Clinton, whose memoirs hit the bookshops on June 22nd, could well take the whole summer.

The Clinton publicity machine will be a remarkable thing to behold: there will be speeches and book-signings, cooings on Oprah and softballs from Larry King, roundtable discussions and spin-off documentaries. Mr Clinton has a $10m-plus book advance to justify, a reputation to burnish and a raging ego to satisfy. Nor will the publicity machine quit when the book tour grinds to a halt. Mr Clinton is preparing to open his presidential library in Little Rock in mid-November. He wants it to be the best such monument—not least to justify the city's decision to raise $17m in bonds to help build the place.

For Washington, DC, the big question about the Clinton revival tour is how it will affect John Kerry. Will the charismatic old rogue suck away the oxygen of publicity? Or will a little of his charm rub off on the dull-as-ditchwater senator? Mr Kerry has so far concentrated on defining himself in relation to George Bush; now he must define himself in relation to the most electable Democrat since FDR.

To complicate things, the Democratic Party has had a dysfunctional relationship with Mr Clinton ever since Al Gore made the bizarre decision to reject Clintonism (which he did so much to create) in favour of a wild-and-woolly “people versus the powerful” populism. Mr Gore could easily have run as Clinton without the oral sex. And he could have deployed his former boss in swing-states such as Arkansas (which he lost by 50,000 votes). Instead he ranted against giant corporations and treated a man who left office with a Reaganesque job-approval rating of 68% as if he were a wild dog, to be chained and muzzled.

In the 2002 congressional elections the Democrats also ignored Mr Clinton, reverting to their pre-1992 selves, promising government handouts and duly getting clobbered. Then Howard Dean tried to drag the party even further to the left, claiming to stand for “the Democratic wing of the Democratic Party” and lambasting the Clintonites for caving in to the Republicans over “big government” and “welfare reform”.

Mr Kerry is better placed to establish a more creative relationship with Mr Clinton. He doesn't suffer from

Mr Gore's sense of personal betrayal, nor from Mr Dean's populism. Ever since the primaries, Mr Kerry has been tacking to the centre. The one-time scourge of “Benedict Arnold companies” has become a pro-business Democrat who wants to reform the tax code, lower corporate-tax rates and reduce the federal deficit. Mr Kerry recently reminded the Democratic Leadership Council of his record of backing Clintonian policies such as welfare reform and educational accountability.

Nuzzling up to Mr Clinton makes sense for Mr Kerry on two levels. First, it will surely endear him to the swing voters who will decide this election: no recent Democrat has been better at appealing to swing voters than Slick Willie. Second, it helps Mr Kerry in his main goal—undermining Mr Bush's credibility. Mr Kerry will claim that the last Democratic president delivered eight years of peace, prosperity, balanced budgets and amicable relations with America's allies. The implicit comparison may be unfair: Mr Bush inherited both a sinking economy and an insurgent al-Qaeda. But it will play on voters' suspicion that the Bush White House simply isn't up to the job.

And the dangers? Mr Kerry can probably discount the worry that he will arouse the ire of Clinton-haters; the right is going to vote for Mr Bush come what may. The bigger problem is whether he can pull it off. After all, he comes from the Ted Kennedy rather than the Bill Clinton wing of the Democratic Party. Mr Clinton made his career in a conservative southern state; Mr Kerry forged his in a north-eastern state, defined by Harvard Yard liberalism and powerful trade unions (he conveniently forgot to tell the DLC that he retreated from his education reforms at the first sniff of union opposition). As a presidential candidate, Mr Clinton famously returned to Arkansas to oversee the execution of a mentally retarded black man. Mr Kerry is one of the few prominent American politicians to oppose the death penalty.

There was more to Bill than just charm

The ideological gap is actually smaller than the gulf in political talent and ambition. Just as Mr Bush can look small when set beside Mr Reagan, the Massachusetts senator looks dwarfed by the super-sized Mr Clinton. It is not just that he is a one-note speaker who finds it painfully hard to connect with people who don't go snowboarding; he has also conspicuously failed to reinvent the Democratic faith. In 1992 Mr Clinton ran not just on the notion that a Bush was a bad president; he also promised to be a different sort of Democrat, who wouldn't blow the tax dollars of the “forgotten middle class” on liberal boondoggles.

With skill, Mr Kerry can change even this comparison into an opportunity. Will Marshall, the head of the Clintonite Progressive Policy Institute, argues that Mr Kerry could actually present himself as the man to complete the Clinton revolution. Mr Clinton focused on modernising his party's domestic policy; now Mr Kerry can toughen up its foreign policy.

As both a Vietnam veteran and a leader of the anti-war movement, he is perfectly placed to deal with one of the party's great albatrosses: its perceived reluctance to promote American values and pursue American interests abroad. Rising to that challenge would require Mr Kerry to show an inventiveness that his campaign has lacked so far. But if the Democrats are to make full use of one of their most powerful assets, that is surely what their presidential candidate needs to do.

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Correction: job growth

Jun 17th 2004
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Last week ("Cursed by lagging perceptions") we suggested that the current pace of job growth (an average of 238,000 new jobs per month this year) meant that a forecast published in February by George Bush's Council of Economic Advisers, which suggested 2.6m new jobs would be created in 2004, might prove too low. In fact, the CEA'S forecasts were based on calendar-year averages, not year-end figures, and their calculations actually implied the creation of more than 320,000 new jobs per month during 2004.

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Crime in Mexico

Fear of captivity

Jun 17th 2004 | MEXICO CITY
From The Economist print edition

Kidnapping is a blight that Mexicans do not like to acknowledge. Its victims hope that is about to change

Get article background

JUAN (not his real name) had a cruel May. In that month alone, seven of his friends and acquaintances were kidnapped, and three of those were killed. This came on top of the kidnapping of two members of his immediate family. He is now thinking of selling his share of the business that he co-owns, and going to live abroad. If he does, he would be following other members of his family who have already emigrated for the same reason.

Mexico, especially its capital, is suffering an epidemic of kidnapping. For the first time, ordinary citizens are organising public protests against a crime that they feel is out of control. Shoppers and local residents held a demonstration this month at a mall in the south of Mexico City, demanding tighter security after a rash of assaults and kidnaps in the car park. Several such groups have joined forces for what they hope will be a big rally on June 27th.

Many of the protesters are not in the habit of organising anything bigger than family weekends to Acapulco. They are mostly well-to-do, strangers to the ritual demonstrations by teachers, farmers and electricity workers that often swamp Mexico City. The leaders of these novel protests, such as José Antonio Ortega, a lawyer, are tapping a new mood of anger. He argues that for too long the crime of kidnapping has been brushed under the carpet by politicians, and that none of the pledges to do something about it has ever been fulfilled. It is up to potential kidnap victims to get the issue taken more seriously, he says.

In Argentina, the kidnapping and murder of a young student in March prompted huge public protests that have forced the government to react. Will the same thing now happen in Mexico?

Kidnapping is a big problem throughout the region, though just how big and whether it is worsening are disputed. Kroll, a security company based in New York, estimates that half of all the world's kidnappings occur in Latin America. Colombia has long been the world leader: Kroll reckons 4,000 kidnaps took place there last year (just 2,043, says the government). But Mexico is now in second place, with 3,000 cases, ahead of Argentina (2,000), according to Kroll. Security consultants say that while the trend is falling in

Colombia, it is rising in Mexico.

Mexico's government disagrees. Its figures show kidnaps falling, from 568 in 2001 to 531 last year. But these are only the reported incidents. Many families are terrified of reporting cases to a notoriously corrupt police force—some of whose officers have been found to be involved in kidnaps themselves. Even the official figures display some alarming trends. In Mexico City, for instance, they show kidnaps rising from 141 in 2000 to 185 in 2003. In the State of Mexico, which surrounds the capital, the numbers rose from 65 to 135 over the same period. In the past three months alone, 33 businessmen have been kidnapped in Mexico City's downtown areas.

Until recently, kidnappers would target very wealthy victims, in military-style operations. Now they are preying on the middle classes. Having moved to a mass market, they are settling for smaller ransoms: $100,000 is now deemed to be a worthwhile haul. The government has had some success in dismantling some of the prominent kidnap gangs, but smaller, amateurish outfits have proliferated.

In addition, kidnappers have become more violent. In the past, victims were rarely molested. Now female captives are usually raped, and men are often beaten and mutilated. Ears and other body-parts are sent to the victim's families. One security consultant speculates that this is a kind of class warfare. He says that the kidnappers, usually poor slum-dwellers, “hate their victims, and so this contributes to the violence.”

Police collusion, and the consequent fear of reporting kidnaps, mean that this crime epidemic has failed to receive the kind of relentless media coverage given to drug trafficking. The protesters argue that politicians, too, have ignored kidnapping because its victims make up a relatively small middle-class constituency. But its cost to Mexico goes much wider. Who wants to invest money and effort in building a business if their reward is to risk losing their life and/or their money?

Mr Ortega argues that the numbers of kidnappings can be reduced quite easily, by rooting out corruption and applying laws that already exist. But that, he argues, is a matter of “political will, at a federal, state and local level.” It remains to be seen whether the politicians are listening.

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Argentina

Kirchner v Duhalde

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From The Economist print edition

The big fight over fiscal reform

ANOTHER month, another review by the International Monetary Fund of Argentina's economy—and another gesture of fiscal rectitude by the Peronist government of Néstor Kirchner. On June 14th, with the IMF team in town, Roberto Lavagna sent a “fiscal responsibility” bill to Congress. This aims to set limits on spending by provincial governments—long an Achilles heel of Argentine public finance. Yet the bill is only part of a wider fiscal fight that has already set Mr Kirchner at odds with Eduardo Duhalde, his predecessor and former political patron.

On the face of things, Argentina is in blooming fiscal health. Recovery from the economic collapse of 2001-02 has boosted tax revenues. In the first four months of this year, the country posted a primary fiscal surplus of 6.35% of GDP—comfortably ahead of the target agreed with the IMF of 3% for the year as a whole.

But the appearance is misleading. First, the government has imposed windfall taxes on exports which are not shared with the provinces. In 2003, the provinces received just 26% of national tax revenues, down from a third during the 1990s—a difference worth some $1.5 billion last year. As the effect of devaluation (and of high commodity prices) wanes, the government will face pressure to cut these taxes.

Second, Argentina is not paying most of its debts (and these are still rising). Earlier this month, Mr Lavagna unveiled a proposed debt restructuring that would give bondholders around 33-36 cents on the dollar. If accepted, that might require the government to raise its fiscal target even as recovery starts to tail off.

So the IMF wants fiscal rectitude written into law. To show willing, the government has come up with the “fiscal responsibility” bill. This would place limits on the provinces' debts. The IMF has also pushed for a second reform, of transfers to the provinces (known as *coparticipación*). The government sent a bland draft of this to Congress in April.

Reform of *coparticipación* is hard: it requires the assent of all 24 provinces. Felipe Solá, the governor of Buenos Aires, the largest of them, wants an extra $1.6 billion a year if he is to back the law. Mr Solá has a point. His province, which is home to one Argentine in three, receives just 21% of the total funds given to the provinces. Taking an average of the revenue-sharing formulae used in other big federal countries, it would receive 32%, points out Luis Secco, an economic consultant.

Mr Solá's complaints have incensed Mr Kirchner, who thrives on enemies, real or imagined. When Mr Duhalde, himself a former governor of Buenos Aires, came to Mr Solá's aid, the president told him to stop “pontificating”. His interior minister compared the former president to a Chinese vase in a small house: “wherever you put him he's in the way.”

On *coparticipación*, Mr Duhalde looks isolated. A string of other governors, anxious not to lose money to Buenos Aires, paraded through the presidential palace to back Mr Kirchner. But this is only one round in what promises to be a long and potentially explosive fight for control of Peronism and Buenos Aires province.

The decisive round may be next year's congressional election. Cristina Fernández, Mr Kirchner's wife and herself a senator, is being lined up to head the Peronist slate in the province. She shares her husband's great popularity. As long as that popularity lasts, Mr Kirchner can be confident of outpointing Mr Duhalde. But should the economy stumble, and with it his approval rating, his growing number of enemies will seek revenge. Either way, fiscal reform may well be the loser.

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Colombia

The meaning of a massacre

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Victims of a battle over drug income

IT REMAINS a violent country, but the mass slaughters of peasant farmers that were common in Colombia over much of the past decade had become much rarer since Álvaro Uribe became president in August 2002. So the killing of 34 coca pickers (another seven were wounded) near La Gabarra on June 15th came as a shock to Colombians. In the past, such massacres were usually the work of the right-wing paramilitary vigilantes of the United Self-Defence Forces of Colombia (AUC). This time, according to the police and a survivor, the killers came from their chief opponents, the FARC guerrillas. The victims, it is said, were working for the AUC.

The massacre says much about the way that Colombia's conflict is evolving. Mr Uribe has taken the offensive against FARC—and that has persuaded the AUC to declare a (much-violated) ceasefire. Overall, violence has fallen. But in some places conflict has intensified.

One such is Norte de Santander department, where the massacre occurred. According to a report this week by *Cambio*, a Colombian magazine, this area has become a strategic priority for both FARC and the AUC. Close to the Venezuelan border, it is a corridor for the import of arms and the export of drugs. A third armed group, the leftist ELN, was once influential in the area, but is now seeking peace with the government. FARC is said to have moved in to try to prevent the AUC from taking control.

Both groups depend heavily on drug profits. These may be dwindling—especially for FARC. With help from the United States, Mr Uribe is busy spraying Colombia's crop of coca (from which cocaine is derived) with herbicide. In 2002, coca cultivation was cut by 30%, according to the United Nations. Its 2003 survey has yet to be published. But much coca has been eradicated in FARC strongholds in the south. In Norte de Santander, by contrast, police say that fumigation of an estimated 20,000 hectares (49,000 acres) of high-yielding coca will not start until August.

All this raises two other questions. One is what will happen to areas under AUC control if peace talks, due to begin on July 1st, prosper. AUC chiefs want the army to move in to their former territories to protect residents against FARC reprisals. But it is unclear whether the army has enough troops for the job.

If the massacre underlines that FARC has long since lost any scruples about slaughtering civilians, it is also a reminder that in talking to the paramilitaries the government is negotiating with big-time drug traffickers. Nearly all of the ten AUC chieftains who will gather for the talks at a government-protected "location zone" in Córdoba are under investigation for drugs. More than ever, the drug "war" and the real war in Colombia are intertwined.

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AIDS in Haiti

H for hope

Jun 17th 2004 | MONTROUIS
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A surprising almost-success story

AP

In a failed state, anti-retrovirals

SHE is 44, but Marie Yolaine Thomas looks at least ten years older. After fighting syphilis and tuberculosis, she found out last year she had AIDS. She lost her job as a result. But her illness is no longer debilitating. She receives free treatment and drugs and is part of a support group set up by an NGO in her home town of Montrouis, a truck stop whose residents include many migrant workers and prostitutes. Life is not easy. “But I am often stigmatised by people who are more sick than I am!” she laughs.

In many ways, Haiti is a failed state: the latest chapter in its long history of strife saw the ousting of President Jean-Bertrand Aristide in February. Yet the country has a relatively successful record in tackling HIV/AIDS. It was hit hard and early by the disease. In the 1970s, Haiti was a prominent destination for sex-tourism. A decade later, when little was known about the virus, HIV was associated with four Hs: haemophiliacs, homosexuals, heroin addicts and Haitians. By 1993, over 6% of adult Haitians were thought to be infected—the highest rate outside Africa. AIDS is the leading cause of death in the country, killing about 30,000 people a year, and it has orphaned 200,000 children.

There is good news, however. A new study indicates that the proportion of adults with HIV/AIDS may have halved over the past decade. Today, three Haitians out of four know how the virus is transmitted; condoms are more widely used. In 2002, Haiti gained one of the first grants from the Global Fund to fight AIDS, for $66.7m over five years. Thanks to this money, about 2,000 people now receive anti-retroviral drugs. Gheskio, the country's leading treatment and research centre on AIDS, plans to extend this treatment to 25,000 people over the next five years.

Demand is great. At Gheskio's main centre in Port-au-Prince, the capital, people start queuing at dawn to be tested or treated. Gheskio is soon to move to much larger premises, partly paid for by private donations. It has opened more than 20 other centres around the country, trained 7,000 workers and carries out research.

Gheskio is in an area of Port-au-Prince nicknamed Kosovo. Gunshots can frequently be heard from the labs. Yet Gheskio does not have armed guards, relying instead on the respect of the population. “We have not lost even a pencil since we started,” says Jean William Pape, who created the centre in the early 1980s.

The apparent success of Haiti's anti-AIDS programme stems mainly from a close partnership between government, private donors and charities. That is rare in politically-divided Haiti. Mildred Aristide, the former first lady, strongly supported anti-AIDS efforts. The transitional government installed in March has had its hands too full to follow suit yet.

For the anti-AIDS programme, foreign peacekeepers sent in the wake of Mr Aristide's departure represent a potential threat. A fully-fledged United Nations peacekeeping force began to arrive in the country this month. Since such forces tend to attract a sex industry, along with it the UN is sending teams of AIDS counsellors who will hand out condoms and provide advice and testing to the troops.

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Canada's election

Martin's last throw

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The debates fail to land a knockout blow

IN THE United States, televised campaign debates tend to be gladiatorial affairs between the two leading candidates. In Canada, they are a confusing brawl. In two debates this week, the first in French and the second in English, the leaders of the four main parties took turns to scrap against each other ahead of the vote on June 28th. That made it hard to point to a clear winner. Is that bad news for Paul Martin, the prime minister, who has moved from narrow favourite to struggling underdog?

The debate in French did settle one thing. Gilles Duceppe, leader of the separatist Bloc Québécois, almost certainly clinched his hold over most of his province's 75 seats in the 308-seat House of Commons. Since his party wants to leave Canada, not govern it, he had the luxury of having nothing to defend. He attacked the prime minister for scandals over a decade of Liberal rule under Jean Chrétien, when Mr Martin was finance minister, and for the supposed neglect of Quebec's industries. With neither the Liberals nor their chief opponents, the Conservatives, likely to win a majority, Mr Duceppe will hold great influence in the weeks ahead.

As the incumbent, Mr Martin was the main target of the other leaders in the debate in English. He suffered no knockout blow. He launched a furious attack on Stephen Harper, the Conservative leader, whose promises of lavish spending on the armed forces and health care as well as large tax cuts would punch a C$50 billion ($36 billion) “black hole” in the public finances, said the prime minister. He also posed unanswered questions as to whether the Conservatives would override the Charter of Rights to block abortion and same-sex marriages.

It was not clear whether this was enough to halt Mr Harper's momentum. A poll by Ipsos-Reid taken on the eve of the debates gave the Conservatives 32%, the Liberals 31% and 17% for the leftist New Democrats. Mr Martin's hopes of winning more seats than the Conservatives depend on clinging on in Ontario, a traditional Liberal stronghold. Several of the Chrétien loyalists, whom Mr Martin dismissed and angered when he became prime minister in December, have rallied to him. Is it too late? Many Canadians seem suddenly to have tired of Liberal rule. But while Mr Martin is down, he is not yet out.

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NATO and Afghanistan

Reinforcements needed

Jun 17th 2004 | KUNDUZ
From The Economist print edition

AP

European countries are failing to provide the soldiers Afghanistan badly needs

Get article background

THE German colonel paused in Kunduz spice market, in northern Afghanistan, and sniffed at a pile of cloves. Beaming, he informed the bemused stall-holder that his wares were first-rate. Outside the market, his men—the first contingent of a NATO-led peacekeeping force to venture outside Kabul—were supervising the removal of mounds of dung from Kunduz's reeking streets.

No doubt, the locals were glad of this service. But it may have failed to convince them that the NATO-led International Security Assistance Force (ISAF), comprising 6,500 mostly European peacekeepers, is capable of protecting them from the factional and terrorist violence raging in Afghanistan. After 25 years of war, many Afghans have an eye for military might. They would have spotted that, while Kunduz's unruly local militia has a fine fleet of tanks, and while Kunduz is still about the safest city in the country, the 250-strong German contingent is only lightly-armed.

More was expected of NATO when it took over ISAF last August. Unlike Afghanistan's other foreign army, an American-led coalition of combatants who are hunting remnants of the former Taliban regime and its al-Qaeda friends, ISAF was at that time restricted to Kabul. NATO vowed to lead it into the wilds beyond, to secure the provinces ahead of the elections that were supposed to take place this month.

The elections have been postponed until September, partly because NATO has not kept its promise. Since the Germans took over in Kunduz on January 1st, there have been no further deployments outside Kabul. Meanwhile, the insurgency that has terrorised southern Afghanistan since the Taliban were toppled has spread northwards. On June 16th, a roadside bomb destroyed a car used by the Germans in Kunduz, killing four Afghans. Earlier this month, five employees of Médecins Sans Frontières, a European aid agency, were killed by remnants of the Taliban in north-western Badghis province, bringing to 21 the toll of aid workers murdered in Afghanistan this year.

Against this grim tide, ISAF recently pledged to post regional garrisons—known as Provincial Reconstruction Teams (PRTs)—throughout northern and western Afghanistan, and to deploy an additional force to secure the elections in those areas. Accordingly, it would be up to the American-led coalition

forces to police the more violent south and east, where UN election officials are already under attack. But even this fairly modest ambition, for which around 4,000 extra soldiers were requested, is now being pegged back.

At a summit in Istanbul at the end of this month, NATO is expected to reveal plans for four or five more PRTs in northern Afghanistan, though several of these will merely replace existing coalition troops. Germany will contribute a small garrison to remote Faizabad—which its troops in Kunduz already visit. A British-run coalition PRT in Mazar-i-Sharif will now come under ISAF's command, as will its outpost in nearby Maimana, close to the border with Turkmenistan. The Netherlands may open a new PRT in northern Baghlan province; as may Turkey elsewhere. But these measures will not bring peace to an increasingly dangerous land.

That makes the proposed election-security force, which NATO would also run, especially important. Yet plans for it are still hazy: America and Britain want NATO to send a few hundred men of its Response Force, a pool of several thousand elite, mostly European, troops. But others, notably France, are resisting—despite the plea for more NATO troops made by President Hamid Karzai, Afghanistan's leader, during his visit to Washington this week. America's already hard-pressed soldiers in Afghanistan may have to plug the gap.

Why is NATO failing in Afghanistan? First, because several of its member states are foot-dragging, as the composition of ISAF's forces shows. Excluding Germany and Canada, the force's remaining 33 contributing nations muster barely 3,000 troops. They are reluctant to contribute money and men to a country which many experts privately expect to slip back into mayhem. Nor, it would seem, do they feel bound to NATO's new peacekeeping duty, now that the cold war is done.

The second reason for ISAF's travails is that its commanders appear hamstrung by restrictions imposed by their governments. Take the German PRT in Kunduz. It is a particular blessing that the town is relatively calm, given that German soldiers are constitutionally barred from performing riot control. They might nevertheless have found an opportunity for some rough stuff in the booming local drug trade—the biggest source of insecurity in northern Afghanistan—had they not been forbidden to intervene in it by Germany's parliament.

In fact—and though frustrated ISAF officials utter the acronym almost reverently—the PRT model was not meant for peacekeeping. It was designed by the coalition as a public-relations exercise, in a bid to compensate Afghans for kicking in their doors and trampling their fields in searches for Taliban fighters. The coalition's dozen American-run PRTs have built schools across southern Afghanistan, but often where they are not needed, aid workers say—and without improving security.

The British-run PRT in Mazar-i-Sharif has a better reputation. Its 80 soldiers have trained local policemen and brokered ceasefires between feuding warlords. While the Germans in Kunduz rumble around in heavy convoys, the British patrol on foot. They have not stopped two local warlords, Rashid Dostum and Atta Mohammed, from fighting, but have probably curtailed their battles. Such policies look wise given NATO's troubles raising troops. A few PRTs look like all the peacekeeping most Afghans are going to get.

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North Korea's nuclear ambitions

When the shouting stops

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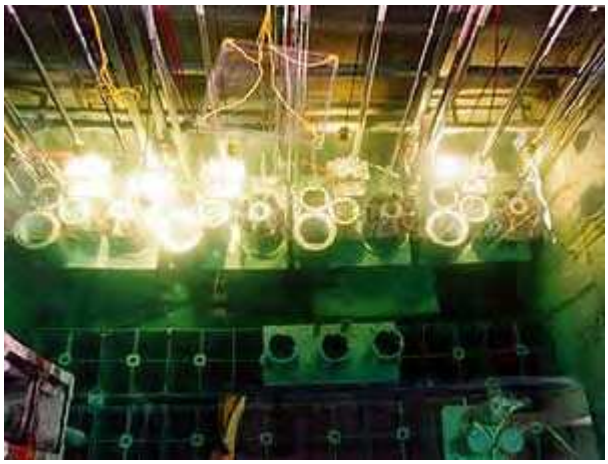
Less glowering, probably less shooting, but still no deal on nuclear cheating

AP



More than a freeze needed

Get article background

AFTER more than four decades of trading propaganda insults across their still heavily armed border, this week North and South Korea formally set aside their megaphones. As part of the same tension-reducing deal between their generals, and in an effort to avoid more costly naval clashes, ships patrolling rich fishing grounds on either side of a disputed maritime boundary in the Yellow Sea have exchanged radio messages and flag signals for the first time since the Korean war more than 50 years ago. Assuming the shouting and the shooting really stop (agreements between the Koreas have a habit of coming unstuck), might all this augur well for the third round of six-way talks on the North Korean nuclear crisis that opens in Beijing on June 23rd?

In theory all six participants, including America, Japan, China and Russia, agree that their aim is the denuclearisation of the Korean peninsula. In practice, that already stretches a point.

North Korea says it will “freeze” its production of plutonium, from which nuclear bombs can be made, but only if it gets a suitably sizeable reward. It did in a 1994 deal with America, trading a cap on its plutonium-making for supplies of fuel oil. But that deal collapsed in 2002, when American officials confronted North Korea with evidence of a second illicit nuclear effort, this one relying on enrichment of uranium. North Korea now flatly denies any uranium wrongdoing, despite the admission by Abdul Qadeer Khan, the father of Pakistan's bomb, that he sold such technology to North Korea, as well as to Iran and Libya.

Knowing that North Korea cheated on the earlier deal, America insists this time on the “complete, verifiable and irreversible” dismantling of all North Korea's nuclear programmes. Any halt or freeze, say George Bush's officials, might indeed earn rewards from some of the neighbours (South Korea and China are keen), but it would have to apply to both programmes, and then only as an agreed first step towards ending them. South Korean efforts to explore some creative ambiguity, by having North Korea declare a halt to nuclear activities, while leaving the two to differ on what that might mean, are unlikely to appeal to the Bush team.

That seems to leave next week's talks at another impasse. Mr Bush is anyway distracted by his campaign

for re-election in November, though his officials hint darkly that patience may then run out fast. But North Korea's boss, Kim Jong-il, is in no rush either. He would rather deal with John Kerry, Mr Bush's opponent. More troublingly, he seems to be raking in plenty of “rewards” anyway, without giving up any of his weapons programmes.

China, keen for a quiet life, says it isn't convinced Mr Kim has a uranium programme. It reportedly paid him off handsomely after a recent visit to Beijing, both for turning up to the latest talks and for avoiding provocations, such as testing one of the several bombs he already claims to have or firing off one of the longer-range missiles he is building. Iran is in any case thought to be supplying Mr Kim with test data from its own knock-offs of North Korean missiles, and the two may be helping each other's nuclear ambitions too.

Meanwhile, Japan's prime minister handed over $10m and 250,000 tonnes of rice as ransom for five North Korea-born children of former Japanese abductees who have now joined their parents in Japan. And South Korea has plans for big industrial investments. For hand-to-mouth North Korea, just getting paid for talking may already be rewarding enough.

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Australia

The biter bit

Jun 17th 2004 | SYDNEY
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America has turned the heat on Australia's opposition leader

Get article background

JOHN HOWARD, Australia's prime minister, boasts that he set out to “rebalance” Australia's foreign policy when he came to power eight years ago from what he saw as too much focus on Asia and not enough on Australia's most powerful ally, America. Having George Bush, a like-minded conservative, as president helped. The two men are as close as any Australian and American leaders have been. Both face elections later this year; both have been struggling in opinion polls. But even some of Mr Howard's closest supporters raised an eyebrow when Mr Bush launched a stinging public broadside on June 3rd against Mark Latham, leader of Australia's opposition Labor Party, over his plan to withdraw Australian troops from Iraq by the end of the year.

With Mr Howard standing by his side, Mr Bush said of Mr Latham's plan: “It would be a disastrous decision for the leader of a great country like Australia to say we're pulling out... It would embolden the enemy, who believe that they can shake our will.” Within days of Mr Howard's return to Australia, similar attacks followed through interviews in the Australian media with Colin Powell, America's secretary of state, and Richard Armitage, his deputy. Mr Armitage suggested that Mr Latham may be risking the alliance altogether if he becomes prime minister.

Mr Bush's attack was seen as more than mere payback to Mr Latham for having once called him incompetent and dangerous. Mr Howard was quick to deny any role in its orchestration—though he will surely recall that Mr Latham once called him and his cabinet “a conga-line of suck-holes” for their unflinching support of America. Mr Howard accuses his opponent of “cutting and running”, and insists Australian troops should stay in Iraq until they have finished the job. Yet Mr Latham's plan, in some respects, would continue a process that Mr Howard himself began last year.

Australia committed 2,000 troops to the American-led invasion in early 2003, without suffering casualties. After the fall of Saddam Hussein's regime, the government withdrew more than half of them. Robert Hill, Mr Howard's defence minister, explained in April last year that “much of their work is done”. About 850 Australian troops remain in the Gulf region; Mr Latham's withdrawal plan involves only the 350 or so still in Iraq.

With events turning sour there, Mr Howard would probably have preferred to fight the election on other issues. But following Mr Bush's intervention, he has signalled that he intends to try to turn Iraq to his favour by painting Mr Latham as a threat to Australia's security under the American alliance. This could work; but it could also be risky. The American alliance is popular in Australia. Mr Bush is not.

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Japan and Iraq

Neither in nor out

Jun 17th 2004 | TOKYO
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Junichiro Koizumi tweaks the pacifist rules again

Get article background

PACIFISTS can be better than military superpowers at being unilateralist. Junichiro Koizumi is counting on this as he updates, yet again, the role of Japan's Self Defence Force (SDF). Following promises made at the G8 summit in Georgia last week, the prime minister is seeking to redefine the SDF's mission in Iraq, and make it part of a new multinational force that was called for in last week's United Nations resolution.

The trouble with the new multinational outfit is that its members might have to defend people by firing weapons. Agreeing to this knowingly would further stretch, if not snap outright, Japan's self-imposed limits on using force. There is little risk of this in the SDF's current Iraq mission, which involves giving humanitarian help to the quiet southern town of Samawah. So Mr Koizumi announced a simple solution on June 15th. The 550 Japanese troops in Samawah will call themselves part of the multinational force, but carry on as before—operating in “non-combat” zones—and will take orders from nobody.

When its troops started venturing overseas more than a decade ago, Japan's goal was to look more like all of the other countries that provide peacekeepers, and thereby to avoid criticism. Yet the 1992 law authorising the SDF to deploy abroad laid down tight restrictions on which sorts of missions it could join, to avoid violating the pacifist restraints in Japan's constitution. As a result, Japanese troops still stand out awkwardly wherever they go.

SDF troops on peacekeeping missions, for example, must adhere to prohibitions on “collective self defence”. So if anyone attacks the Japanese troops in Samawah, a nearby Dutch contingent will come to the SDF's aid; but if the Dutch troops should come under attack, they are on their own.

The 1992 law also limited SDF missions to cases in which a ceasefire is in place and Japan has a clear invitation from all local groups. In deploying troops to Samawah, Japan got round this by noting a UN resolution last year that called on willing countries to help rebuild Iraq. With a new interim government formally taking over at the end of this month, however, Japan would have had to negotiate a new and separate deal. Nominally joining the new UN-approved force makes things simpler.

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India's tainted ministers

The boys from Bihar

Jun 17th 2004 | DELHI
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Some members of the new government are an embarrassment

Get article background

WHEN Sonia Gandhi, leader of the Congress party, last month turned down the chance to become India's prime minister, she robbed the opposition of its first line of attack: a xenophobic campaign against her Italian origins. A second front, however, opened at once over an issue where Congress finds it harder to take the moral high ground. Several ministers in the coalition government are tainted by criminal charges filed against them.

The new prime minister, Manmohan Singh, is revered both as a successful former finance minister and as an incorruptible public servant. But he has never won a direct election. Many elected politicians have far dirtier hands. Under rules that came into force last year, candidates in Indian elections now have to reveal their criminal past. According to a tally by *Outlook*, a weekly magazine, no fewer than 100 of the 542 present members of the lower house face criminal charges.

They include ten of the 25 MPs from the Rashtriya Janata Dal (RJD) party, Congress's biggest coalition partner. The RJD's fief is Bihar, which, with more than 80m people, is India's third most populous state, and the one where crime and politics are most inextricably linked. A notorious gangster, Mohammad Shahabuddin, was re-elected to parliament last month for the RJD. The fact that he is notionally in prison—in practice, in a comfortable hospital—and was described in a police report last year as a “cold-blooded murderer and hard-core criminal” was, apparently, not an insurmountable obstacle.

The RJD's leader, Laloo Prasad Yadav, stood down as Bihar's chief minister in 1997, when he was arrested on corruption charges, but installed his wife as his proxy. He still faces charges related to one of the biggest frauds on the Indian state ever uncovered, involving the “purchase” by the Bihar government of billions of rupees-worth of non-existent fodder.

Mr Yadav, who, rather bizarrely, has become the new railway minister, claims the charges against him are all concocted by his political opponents. Similar claims are made on behalf of his party colleague, Mohammad Taslimuddin, the minister of heavy industries, accused of crimes including attempted murder, intimidation and extortion.

Privately, senior Congress figures say how much it pains the prime minister to welcome such people into his government. In public, Mr Singh points out that they have never been convicted of any crime, and Congress accuses the opposition Bharatiya Janata Party of hypocrisy. Its government, whose six-year tenure ended last month, included a number of politicians facing criminal prosecution for involvement in a riot in 1992 when a mosque was demolished at Ayodhya, triggering widespread communal violence.

Bihar is only the most egregious example of a national phenomenon. Criminals bribe and intimidate their way into office for the protection it affords and the opportunities it offers for recouping their investments. Jayaprakash Narayan of Lok Satta, an electoral-reform lobby group, quotes an estimate of 20m rupees ($440,000) as the cost of standing for election in Bihar.

There is some hope that if the new government carries out its promise to introduce the state funding of elections, politics may attract a nicer class of person. Mr Narayan also argues for a system of proportional representation to break the link between constituency and candidate. Perhaps more pressing is the need for an overhaul of the criminal-justice system, which at present seems to produce fewer convictions than ministers.

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China

An unquenchable thirst

Jun 17th 2004 | SHANHOU VILLAGE
From The Economist print edition

Growing tensions over scarce water

IN THE drought-stricken village of Shanhou, straw-hatted farmers are busy spreading grains of wheat on the roads to dry in the hot sun. The harvest is a fraction of what it was a few years ago when water flowed in the Juma River, which traverses the village. Now the wide river bed is an expanse of sand and pebbles. But it is not the drought they blame, as much as an unquenchable thirst for water in Beijing, a few miles upstream.

A few days ago, the capital quietly completed a project on the Juma River to divert the water to one the city's biggest state-owned industries, Yanshan Petrochemical. Only on the rare occasions when the river is high will it flow over the diversion dam and on into Hebei Province, to which Shanhou village belongs. According to reports in the state-owned media, a bitter dispute erupted between Hebei and Beijing after news of the project emerged in September last year.

China abhors open feuding between government bodies. But northern China's increasingly acute water shortage is causing tempers to fray. The demands of intensive farming and burgeoning industrial development, as well as waste and pollution, add to the area's historic problem of low rainfall. Last year China consumed four times as much water for each 10,000 yuan ($1,200) of GDP compared with the world average, the Ministry of Water Resources said this month.

But keeping the capital well supplied is a top political priority. Beijing relies heavily on water from Hebei, which has little choice but to provide generous quantities in spite of its own acute needs. The capital is trying to put a stop to wasteful water use by raising charges and investing more in recycling. Work has also begun on a massive project, due for completion in 2010, to divert water from the Yangtze valley. But Beijing's construction frenzy, influx of migrant workers and the Olympic Games in 2008 will all generate growing demand for water.

In February, the Chinese media reported that Beijing had suspended its diversion project on the Juma River and ceased work on the extraction of underground water nearby (also for the petrochemical firm) in order to ease negotiations with Hebei. But if this was so, the stoppage was brief. Your correspondent this week saw a newly fortified stone dam funnelling all of the water flow into a concrete culvert. Workers said it was destined for Yanshan Petrochemical. They said wells had been sunk as well to supplement the supply with underground water when needed.

A study published by the Hebei Water Resources Survey Bureau about five years ago—when Beijing was considering a similar diversion scheme—said the project then under review would have a “colossal impact” downstream, negatively affecting the livelihoods of 120,000 people in several Hebei counties.

Hebei is hardly blameless. Farmers in Shanhou village say quarries using large amounts of well water have proliferated on the dry river bed in Hebei for the extraction of sand and pebbles to supply the booming construction industry. Much of the Juma River is diverted before it even reaches the capital.

Jiang Wenlai, a water resources expert at the Chinese Academy of Agricultural Science, says the willingness of Hebei to raise its complaints with Beijing is a sign of progress from the days when no one would dare take on the capital. But a Hebei water-resources official clearly recognises to whom he should defer. “Beijing is the capital, so it takes precedence when it comes to politics and overall needs.”

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Iraq

A fresh start?

Jun 17th 2004 | BAGHDAD
From The Economist print edition

AP

Iraq's new government: hope amid the bombs

IT IS early days for Iraq's new government and certainly too soon to claim any reduction in violence. No sooner had ministers attended one official's funeral this week than it was time for another. When five foreigners working for General Electric, an American firm, were killed by a car-bomb, the new prime minister, Ayad Allawi (pictured above), displayed his determination to fight the insurgents by parading his five top security officials before the press. An early worry is that, to keep themselves alive, officials of the new regime will become as distant from the people as their American predecessors were.

It is also plainly premature to see signs of the economy starting to improve. Electricity cuts in the searing heat remain frequent. Oil exports this week dropped by 80% after saboteurs hit pumping stations, with technicians saying it would take ten days to put right. The third senior official to be assassinated this week was the head of the Northern Oil Company's security in ethnically troubled Kirkuk; he was a relative of one of the Kurds' two main leaders.

Yet Iraqis, on the whole, sound unusually hopeful. Mr Allawi and his president, Ghazi al-Yawar, are enjoying a honeymoon. Newspapers that used to hail the insurgents as “the national resistance” now sing the new government's praises and forecast national reconciliation. “The resistance is losing its value,” says a former mouthpiece for the insurgents. “People need a break.”

Popular enthusiasm for the government is all the more surprising given its composition. Mr Allawi spent 30 years outside Iraq and is widely seen as a CIA and MI6 man. All but four of his ministers are secular-minded: his government has a narrower base than the previous Governing Council, which had eight Islamists among its 25 members. Officials of Saddam Hussein's regime won more posts in the new cabinet than the religious parties.

The new ministers are already playing to the nationalist gallery—and scrapping with the Americans. The president has told them to hand over Saddam Hussein's Republican Palace, which has been the American-led coalition's headquarters.

The question of who controls the detainees is particularly sensitive. Mr Allawi has also asked America to

hand over Mr Hussein for trial before Iraqis. He says his government will take care of Mr Hussein and the thousands of other detainees now held by the Americans immediately after the formal handover of power at the end of the month. Mr Allawi said this week that Mr Hussein and other former Iraqi leaders would be transferred to the Iraqi authorities in the next two weeks. But the Americans are circumspect about exactly when the transfer will take place.

They still have some 6,000 locked up in Iraq, down from 9,000-odd in February; the British have just 65. Virtually all those suspected of ordinary crimes, such as looting, have already been handed over to the Iraqis for trial in normal courts. Most of the rest, known as “security internees”, are civilians deemed to threaten security. There are also 93 “high-value detainees”, including more than 40 of the 55 most-wanted of Mr Hussein's former henchmen in America's “deck of cards”.

Is he yours or ours?

Under the Geneva conventions, prisoners-of-war may be held without trial or charge until the end of an occupation or the cessation of hostilities, and must then be freed or charged with a criminal offence. But the Americans' spokesman in Baghdad said this week that the outgoing authority was not obliged to hand Mr Hussein over “until the cessation of active hostilities”, which were “unfortunately” continuing. It was the Americans' “goal” to get Mr Hussein into Iraqi hands “at an appropriate time” after June 30th, once the Iraqis' special war-crimes tribunal was “ready to receive him”. Mr Bush has declined to be pinned down on a date for Mr Hussein's transfer.

The cases of the other detainees are under review. More than 500 were freed from Abu Ghraib jail this week. The Americans expect some 4,000-5,000 to remain at least in their physical custody after June 30th. But who will have legal responsibility for them after that date is still fuzzy.

The Iraqis are clearly eager to get control at least of Mr Hussein and other high-profile detainees likely to be tried by their special war-crimes tribunal. Salem Chalabi, an American-educated lawyer in charge of setting up the new court, said this week that he hoped to be able to issue arrest warrants for up to 100 detainees by June 30th. No date has yet been set for any war-crimes trial. Mr Hussein's is unlikely to be among the first. Mr Chalabi suggests it might not start for another couple of years.

For many Iraqis, Mr Allawi's strongest card is his reputation as a strongman who has promised to bring back security. He has kept the groups run by former exiles on board by promising to convert their militias into the core of a national rapid-reaction force. And he is speeding up the recruitment of former loyalists of Mr Hussein's Baath party and army, who have been at the heart of the insurgency.

Meanwhile, President Yawar is focusing on winning over the tribal warriors. A scion of the powerful Shammar federation of tribes, which straddles the border with Syria, Mr Yawar could help stop the flow of *jihadi* zealots into the country. Some of his followers in Mosul, in the north, and in Baghdad have taken to the streets to fire guns in support.

Not everyone is on side. The Kurds are disgruntled because the UN Security Council resolution, which endorsed the new government, made no promise of federalism; nor did they get either of the two grandest jobs in the new administration.

Losers and bombers

But the biggest losers, so far, are the religious groups. Some, like Dawa, a mixture of Shia clerics and laymen, have gone quiet. Others remain vicious. Young followers of the turbulent cleric, Muqtada al-Sadr, still harass the American-led forces, though some 800 of them, according to some reports, may have been killed in the past two months just in the Baghdad slum where he gets most of his support. Mr Sadr sounds interested in President Bush's offer to go into peaceful politics. But it is unclear, in any case, who controls his movement.

The Sunni Islamist rebels, who supply car-bombers and suicide squads, are harder to win over. Many of their cells come under an umbrella group, the Islamic Front for the Iraqi Resistance, which derides Mr Allawi's team as a fig-leaf for “the hidden occupation”. Car-bombs are still going off regularly, with at least 17 explosions in the first fortnight of this month. On June 17th, a suicide-bomber blew up some 35 Iraqis, mostly would-be army recruits, in Baghdad. The majority of those being assassinated are Shias,

whom the Sunni *jihadis* denigrate as “apostates”. Don't expect Mr Allawi to get on top of the insurgency in a jiffy.

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Iran and its nuclear ambition

Still at it

Jun 17th 2004
From The Economist print edition

The UN's inspectors still aren't satisfied

Get article background

DOES Iran have nuclear-weapons ambitions, or just an ambitious programme to produce electricity from nuclear power? It insists that all its nuclear activities are for peaceful purposes only, and that it has now (after several admitted false starts and 18 years of subterfuge) told the inspectors from the International Atomic Energy Agency (IAEA), the UN's nuclear watchdog, all they need to know. Unfortunately for Iran, the inspectors, in another report this week to the agency's 35-nation board of governors, disagree.

Angered that this latest report details yet more holes in the explanations it has given inspectors for its past nuclear activities, Iran's president, Muhammad Khatami, upped the stakes. Rejecting a tough resolution drafted by Britain, France and Germany that “deplores” inadequate co-operation thus far, Mr Khatami insisted that, if the resolution were to pass (as it was expected to), he would feel “no moral commitment” to continue to suspend Iran's uranium-enrichment programme. Others suggested that Iran would refuse to ratify, and might even rescind, its agreement to allow tougher inspections.

Both were important elements of a deal that the Europeans struck with Iran last October. They agreed not to refer the nuclear shenanigans thus far to the UN's Security Council—something the IAEA's board is obliged to do at some point—so long as Iran suspended its plans to enrich uranium and told all about its past nuclear exploits. The slate thus cleaned, the Europeans would offer Iran the prospect of co-operation in other sophisticated technologies, along with continuing benefits from civilian nuclear power, if it would give up sensitive uranium and plutonium technologies that could also be exploited to make fissile material for bombs.

But the slate is far from clean yet. Aside from a string of dubious nuclear experiments already accounted for, the inspectors need to know where traces of enriched uranium they have found, some only lightly enriched, some more highly enriched and therefore potentially militarily more useful, actually came from. Iran's story, that these all came in on imported machinery, does not hold together; more likely Iran bought some already enriched uranium on the black market, possibly from Russia, or else experimented itself well beyond accepted civilian levels.

It has already changed its story more than once about the intended scale of a programme to buy in more sophisticated uranium-producing centrifuge machines than the ones it was caught assembling last year. The Europeans also want Iran to give up plans to build a heavy-water nuclear reactor that is unsuited to power generation but handy for producing bomb-usable plutonium.

The United States, for its part, wanted a deadline set for Iran to satisfy the inspectors, or else be referred to the UN. But the Europeans are still keen to keep their diplomacy going. If Iran does resume uranium enrichment, however, their gambit will have failed miserably. Mr Khatami said this week that Iran at least had no plans to pull out of the Nuclear Non-Proliferation Treaty, as North Korea did. That is faint comfort, if it intends to go on breaking or bending the rules from within.

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Peacekeeping in Africa

Into the breach

Jun 17th 2004 | JOHANNESBURG
From The Economist print edition

Can Africans keep their own peace?

Get article background

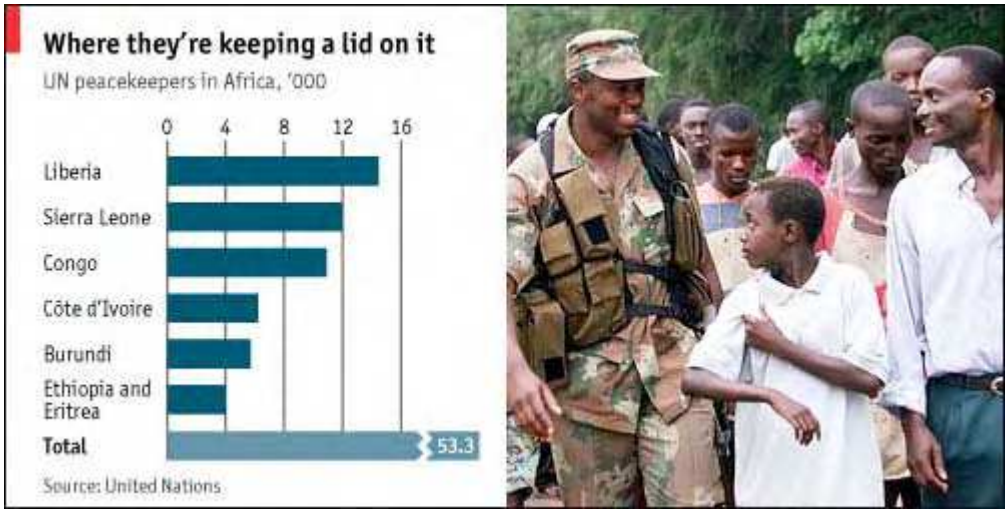
AFRICAN soldiers have been much involved in peacekeeping on their own continent in the past few years, and may be able to do the job better if a plan floated by President George Bush at last week's summit of leaders of the G8 countries materialises. They certainly need more help.

In the past few weeks, a United Nations force including African contingents has been struggling to contain a rebel uprising in eastern Congo. In some places African troops have done better. South Africans have helped keep Burundi's capital, Bujumbura, pretty quiet for the past couple of years, though they have rarely ventured out to monitor peace beyond it. And Sierra Leone has been calm for the past few years, thanks to the UN's 12,000-strong force, of which one-third is African. But this peacekeeping force, like all the others in Africa, still relies on support from outside the continent.

That is what Mr Bush has proposed to remedy. Under his scheme, western countries would train as many as 75,000 extra African peacekeepers, to be ready for action, mainly in Africa, by 2010. Mr Bush said he would ask Congress for $660m to help pay for it.

Will it happen? Schemes to help African peacekeepers are launched with bewildering regularity. Under an “Africa Crisis Response Initiative”, the Americans trained 8,600 soldiers from eight countries between 1996 and 2002. Assorted British, French, Canadian and Nordic efforts have trained thousands of African would-be peacekeepers. Yet the number of African peacekeeping troops ready to go into action has barely changed in a decade. In 1992 there were 10,300. By 2002 the figure had risen only to 11,560.

But the demand is a lot bigger. In the past year, the UN and the African Union have agreed to deploy 53,000 soldiers in six new or expanded missions in central, west and east Africa (see chart). Another 7,000 may be sent to troubled Sudan. Some armies, such as Ghana's and Botswana's, provide small numbers of good infantrymen, but of Africa's 55 countries only South Africa has managed to increase its contribution significantly. Last week its defence minister, Mosiuoa Lekota, said that unless South Africa were given more cash and equipment by outsiders its peacekeeping presence would diminish too. Moreover, the prevalence of HIV, which has struck at least a fifth of South Africa's armed forces, makes it even harder to provide extra men for peacekeeping.



As Professor Mats Berdal of King's College in London has argued, peacekeeping infantrymen need transport aircraft and armoured personnel carriers as well as fighter aircraft to give them cover. The Africans cannot, on the whole, afford such things. It is not clear yet whether Mr Bush intends to provide for them. If he does, well and good. It is another matter whether they would be used efficiently.

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European elections

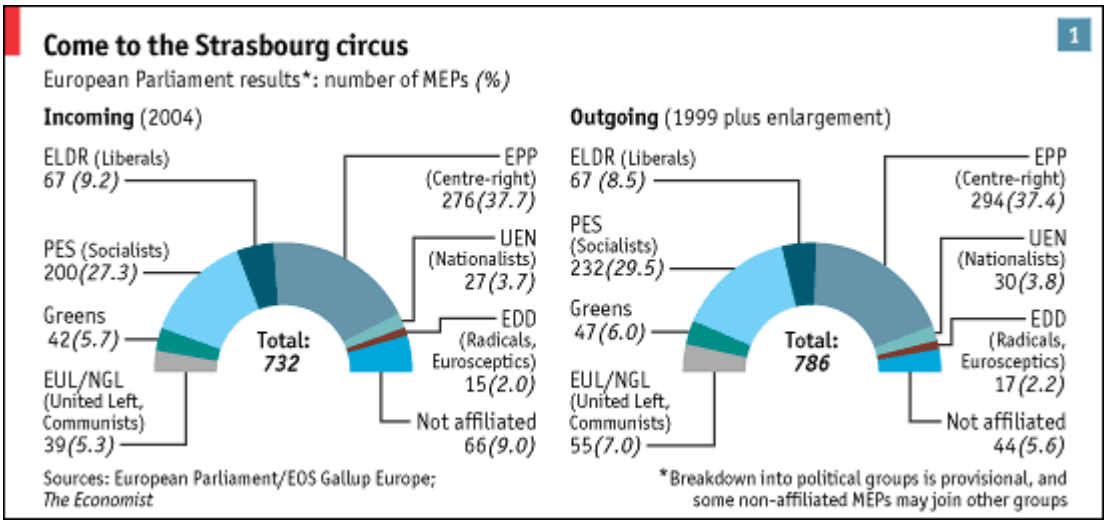
The voters take their revenge

Jun 17th 2004 | BRUSSELS
From The Economist print edition

The European elections were marked by apathy and anger. This article offers an overview; the next four look at particular regions and countries

THEY were called the European elections, but that is something of a misnomer. When voters across the European Union went to the polls between June 10th and June 13th, their task was to elect a new European Parliament, which they did. But those who actually turned out mostly took the opportunity to cast a protest vote against their governments and, to a lesser extent, against the EU in general.

In 23 of the 25 EU member countries, the largest party in the national government saw its share of the vote slump, often spectacularly. Anti-incumbency was, indeed, the main pan-European trend. Incumbents suffered whether they were on the centre-left, like Germany's Social Democrats and Britain's Labour Party, or on the right, like Italy's Forza Italia and France's UMP. The only two governing parties to escape the trend—the Spanish Socialists and Greece's centre-right New Democracy party—both won general elections this spring, and are still in their honeymoons.



Although most votes may have been cast on national lines, they have European consequences. The election confirms that the centre-right will continue to be the largest group in the European Parliament, followed by the Socialists (see chart 1). Because the European elections are, in effect, the composite outcome of 25 national elections, it is hard to argue that Europe's voters as a whole have a made an ideological choice for the centre-right. Nonetheless, Hans-Gert Pöttering, leader of the European People's Party—the parliament's centre-right group—is demanding that the results be taken into account in the political choices made by heads of European governments. In particular, Mr Pöttering wants European leaders to choose a centre-right politician as the new head of the European Commission at their summit, which began as we went to press.

The four biggest political groups in the parliament will be the European People's Party, the Socialists, a new Liberal and centrist group and the Greens. All four groups are likely to be led by committed federalists. And if, as many expect, the Socialists elect Martin Schulz, a German MEP, as the new leader of their parliamentary group, three of the four will have German leaders. This reflects the fact that, after a reallocation of seats to reflect population size, the Germans now make up the largest national block in the parliament, with 99 out of 732 MEPs.

Although parties traditionally committed to closer European integration will be the largest in the parliament, the other pan-European trend in the elections was a rising vote for Eurosceptic parties. The biggest breakthrough was in Britain, where the UK Independence Party took 12 seats and 16% of the vote. In Sweden a new Eurosceptic party, the Junelist, took 14.4% of the vote, and three seats. In Austria and the Netherlands new political parties campaigning against corruption in Brussels also won seats.

Yet the media picture of a Eurosceptic tide across Europe needs to be qualified. Some prominent Eurosceptics did badly. Jens-Peter Bonde, a Danish MEP who is leader of the main Eurosceptic group in parliament, saw his party reduced from three seats to just one (Mr Bonde himself). And the *souverainistes* in France, who have been bashing away at transfers of sovereignty to the EU for many years, saw their vote slump. In 1999 they got 13% of the vote; this time, they were down to about 8.5%. In Poland, the populist anti-European Selfdefence party, which some had tipped to top the polls, in fact came in fourth—although another Eurosceptic party, the League of Polish Families, came second (see article).

Yet though there were setbacks for some Eurosceptics, the awkward squad, broadly defined, will be much bigger in the new parliament. A narrow definition of Eurosceptic parties would give them around 10% of all MEPs. But a broader definition of Euro-awkwards, including those who oppose the new EU constitution or whose main rallying-point is a campaign against EU corruption, yields a much larger group. Professor Richard Rose, a consultant to IDEA, a Swedish think-tank, reckons that, on this definition, as many as 200 of the 732 new MEPs will be “Euro-awkwards”. Inevitably, they are an ideological rag-bag, which will make it hard for them to co-operate politically. They include such groups as British Tories, who see the EU as a source of socialist regulation, and Sweden's Greens, who fear that it is a tool of ruthless global capitalism. There are far-rightists and unreconstructed Communists, as well as nationalists and populists of all political persuasions.

European Parliament seats, by country and political group*

2

	EUL/NGL (United Left, Communists)	Greens	PES (Socialists)	ELDR (Liberals)	EPP (Centre right)	UEN (Nationalists)	EDD (radicals, Eurosceptics)	Not affiliated	TOTAL SEATS
Germany	7	13	23	7	49	–	–	–	99
Britain	–	5	19	12	28	–	12	2	78
France	3	6	31	–	28	–	–	10	78
Italy	7	2	15	9	28	9	–	8	78
Poland	–	–	8	4	18	7	–	17	54
Spain	1	5	24	1	23	–	–	–	54
Netherlands	2	2	7	5	7	–	2	2	27
Belgium	–	2	7	5	7	–	–	3	24
Czech Republic	6	–	2	–	11	–	–	5	24
Greece	4	–	8	–	11	–	–	1	24
Hungary	–	–	9	2	13	–	–	–	24
Portugal	2	–	12	–	7	2	–	1	24
Sweden	2	1	5	3	5	–	–	3	19
Austria	–	2	7	–	6	–	–	3	18
Denmark	2	–	5	4	1	1	1	–	14
Finland	1	1	3	5	4	–	–	–	14
Slovakia	–	–	3	–	8	–	–	3	14
Ireland	–	1	2	–	4	4	–	2	13
Lithuania	–	–	2	3	3	–	–	5	13
Latvia	–	1	–	1	3	4	–	–	9
Slovenia	–	–	1	2	4	–	–	–	7
Cyprus	2	–	–	1	2	–	–	1	6
Estonia	–	–	3	2	1	–	–	–	6
Luxembourg	–	1	1	1	3	–	–	–	6
Malta	–	–	3	–	2	–	–	–	5
Total EU	39	42	200	67	276	27	15	66	732

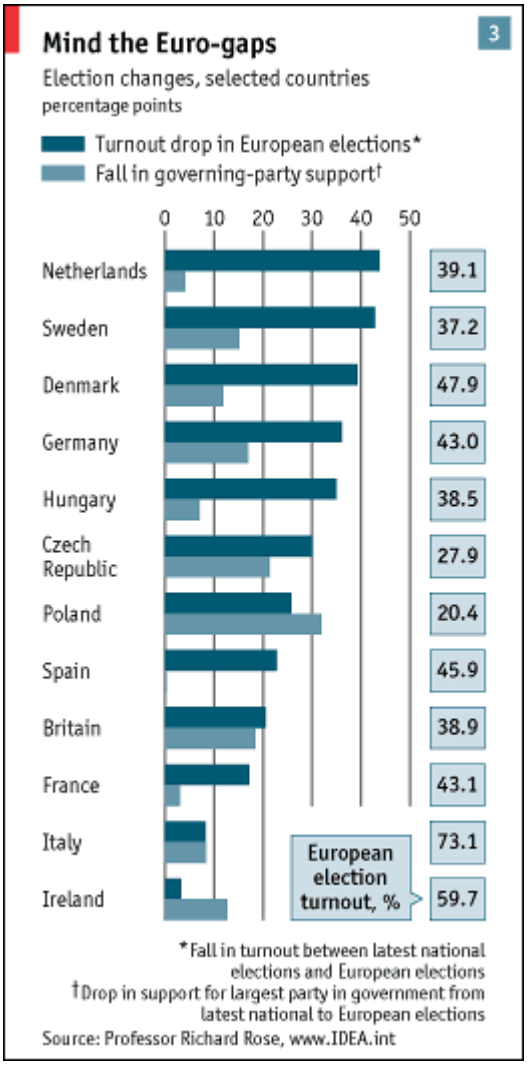
Source: European Parliament/EOS Gallup Europe

*Breakdown into groups is provisional

The presence of these Euro-awkwards, who are spread among so many countries, will make an already unwieldy European Parliament much harder to manage (see table 2). But it should also make it rowdier and more interesting. That is, however, if anyone is inclined to pay attention at all. For perhaps the most noticeable trend in the European elections was a widespread lack of interest in voting.

Across the EU people are far more likely to vote in national elections than in European elections. This “Euro-gap”, according to Professor Rose, now stands at an average of 21.9 percentage points in the 15 old EU countries and at 29.1 in the ten new members (see chart 3). Average voter turnout across the EU fell, for the sixth election running, to just over 45%.

The ten new arrivals to the Union, who were admitted only in May and who might be expected to be flushed with enthusiasm for their common European home, were in fact the most apathetic voters. However, even in nine of the 15 older EU member countries, voter turnout was down. In France on election night just over 7.6m people turned on their televisions to watch the election-results special. By contrast 13.5m tuned in for the England-France football match in the European championships: testimony, if ever there was, to the fundamental good sense of most of the European electorate.



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Central Europe's elections

Populists, ahoy

Jun 17th 2004 | WARSAW
From The Economist print edition

Few voters, and those who turned out were anti-government or anti-EU

AFP

INDIFFERENCE, incomprehension and a sunny weekend combined to produce low turnouts and volatile results across central Europe in the first elections to the European Parliament after last month's enlargement of the European Union. Average turnout in all ten new member countries was 27%, compared with 50% in the old EU 15. Of the eight new central European members, only Lithuania had a turnout above the EU average, and then only because it held a presidential election at the same time. Slovakia, with a turnout of 16.7%, set the record for abstention.

In every country bar Slovakia, voters turned against incumbent governments. The ferocity with which they did so may even unseat one prime minister, Vladimir Spidla in the Czech Republic. His Social Democrats finished fifth, with just 8.8%, leaving Mr Spidla to face a confidence vote from his party's central committee next month. Conservative parties jealous of national sovereignty did well: they included Fidesz in Hungary, Civic Platform in Poland, and the Civic Democrats in the Czech Republic.

If few voters are interested in the European Parliament, their politicians certainly are. Many will give up national parliamentary seats for European ones. The region's new MEPs will include former prime ministers, such as Jerzy Busek from Poland and Alojz Peterle from Slovenia, and former foreign ministers such as Toomas Ilves from Estonia and Bronislaw Geremek from Poland.

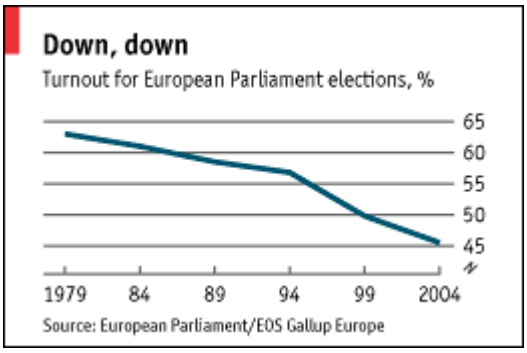
In Poland, the biggest new member, barely one-fifth of the electorate voted. They distributed their support widely, so Poland's 54 MEPs will be divided among as many as seven party groupings. First and third places went to centre-right parties, Civic Platform and Law & Justice; second to a Catholic nationalist party, the League of Polish Families; and fourth to a left-wing farmers' movement, Selfdefence. Selfdefence did worse than expected, because some voters defected to the League of Polish Families, perhaps impressed more by its outright hostility to the EU than by Selfdefence's calls to “re-negotiate” the terms of entry. The League denounces the EU as a vehicle for German domination, and looks forward to amiable relations with the UK Independence Party. “We would like to see the European Union disintegrate,” explains Maciej Giertych, one of its successful candidates helpfully.

Poland's ruling Socialist party, the SLD, came fifth with 9.3% of the vote—a humiliating tally, but a recovery from even worse figures in recent polls. Scandals and a weak economy brought the SLD so low that its leader, Leszek Miller, resigned as prime minister in May, leaving behind a minority government struggling to stave off early elections under a caretaker prime minister, Marek Belka. The result may help Mr Belka to win a confidence vote next week, by suggesting that an early election would mean a hopelessly fragmented parliament. But even if opposition parties let Mr Belka's government survive, it might remain in office only until next spring. This week Mr Belka was heading for the EU summit in Brussels, sure to be denounced by other EU leaders if he failed to lift Polish objections to the draft EU constitution, but sure to be denounced by three-quarters of his parliament at home if he did lift them.

In Hungary, voters gave a handsome victory to the main conservative opposition party, Fidesz, but not so crushing a one as to threaten the prime minister, Peter Medgyessy. The Socialists now hope that an improving economy will lift their chances when a general election comes round in 2006. Meanwhile, the victory of the right-wing Civic Democrats in the Czech Republic may prove less significant than the strong showing by the unreformed Communist Party, which finished second with 20% of the vote. The result can

only add to pressure for the Social Democrats to move left, seeking support from the communists and perhaps even an alliance after years of shunning them.

In Slovakia, by contrast, there was strong support for the ruling centre-right coalition, albeit on a very low turnout. The explanation may be that the country's protest voters were already appeased by their success in April's presidential election, when they rejected the government's candidate in favour of a minor opposition figure, Ivan Gasparovic. With the protest vote diminished, even a little support for the government went a long way.



Elsewhere among new members, Estonians voted for a centre-left party to rebuke their centre-right government, while Latvians and Slovenians voted for right-wing parties to rebuke centre-left governments. A new left-wing party, the Labour Party, did best in Lithuania, apparently winning over voters angered or confused by the impeachment of President Rolandas Paksas earlier this year. Valdas Adamkus, who lost to Mr Paksas in 2003, won a first round of voting to succeed him. He faces a run-off on June 27th against Kazimira Prunskiene, a centre-left candidate who was helped into second place by an endorsement from Mr Paksas.

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French elections

More government blues

Jun 17th 2004 | PARIS
From The Economist print edition

A bad result for Jacques Chirac's governing party

Get article background

ON ELECTION night, the prime minister, Jean-Pierre Raffarin, swiftly issued a communiqué, congratulating the victors. The opposition Socialists, who took 29% of the vote? No: France's football team, for its last-minute win over England. Mr Raffarin's effort to reflect sporting glory made a blunt statement about French indifference to Euro-elections, next to the serious business of Euro-sport.

With a turnout of only 43%, the winner in France, as elsewhere, was apathy. Neither the Socialists nor the ruling Union for a Popular Movement (UMP) made Europe a central campaign issue. The Socialists, who spent most time debating homosexual marriage, said it was too soon to comment on the draft EU constitution. President Jacques Chirac said it was too soon to comment on whether to hold a referendum. Since neither party raised the stakes on Europe, most voters stayed at home.

Those who did vote delivered a "mid-term" sanction to the UMP, which managed just 16%. Although this was up on its humiliating 13% in 1999, it was still appalling. Even Jean-Marie Le Pen, the far-right National Front leader, did better in the first round of the 2002 presidential election. The Socialists pulled off their best European election result ever, trouncing the UMP by 13 points. The combined parties of the left—Socialists, Greens and Communists—beat the combined right—UMP, UDF and two Eurosceptic splinter parties—by 43% to 37%. The only reason this did not reverberate more is that it largely repeated March's regional elections, when the left swept 20 of the 22 regions.

Three big lessons stand out. First, Mr Chirac's attempt to build an umbrella party of the right has collapsed. Originally called, with touching candour, the Union for the Presidential Majority, the UMP was created in 2002 as Mr Chirac's electoral machine. It absorbed his Rally for the Republic, Liberal Democracy, and some of the centrist UDF. But François Bayrou, the pro-European UDF leader who has presidential ambitions for 2007, refused to join in, splitting the right. The handy 12% Mr Bayrou's party notched up in the Euro-elections will stiffen his resolve.

Second, French politics remain highly unsettled. Six months ago, the Socialists were still in disarray after their shock 2002 defeat by Mr Le Pen. The mainstream left was weakened by the rise of the hard left. And the right looked smugly united. Today, the centre-right is reeling. The UMP leader, Alain Juppé, is to stand down next month after being convicted in January of political corruption. The succession will be fiercely fought between Nicolas Sarkozy, the ambitious finance minister, and Mr Chirac's camp, eager to keep Mr Sarkozy down. The Socialists, flush with victory, look newly electable. Even the National Front has retreated, scoring just 10%. In short, the mainstream parties have recovered at the expense of the extremes, but the balance has tilted leftwards.

Third, the government's credibility has been further dented. Mr Chirac this week backed his prime minister, to jeers from the left about his deafness to the electorate. Mr Raffarin insisted that reforms would continue. To his relief, there are no more elections until 2007. Yet UMP deputies are growing restless. Over 200 turned up for lunch this week with Mr Sarkozy, showing symbolic support. Therein lies Mr Chirac's headache. Mr Sarkozy is the only centre-right leader whose popularity endures. Mr Chirac can refuse his rival the prime ministership. But he may not stop him taking control of the party.

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Italian elections

Prodi's problem

Jun 17th 2004 | ROME
From The Economist print edition

Both main political leaders did badly

ONE loser in the European elections was a former professor who was not even running. The president of the European Commission, Romano Prodi, in effect led the centre-left campaign in Italy. The thinking was that he would formally take up the leadership of the opposition when his European job ends in November, and then lead a broad coalition rather like 2001's Olive Tree into the next Italian general election, due by 2006. But, after a lacklustre showing by the centre-left, that plan looks rather less clever than it did.

Mr Prodi's followers had hoped to exploit the prestige that attaches to a top Italian Eurocrat in a country that is fervently, often uncritically, pro-EU, by taking at least 33% of the vote. In the event, the centre-left scooped up only 31%—less than in the 2001 general or the 1999 European elections. One reason may have been that it bungled over Iraq by arguing for an immediate withdrawal of Italian troops, just at the moment when America and Britain were winning unanimous support for a new UN Security Council resolution. Another may have been that, to keep up the pretence of not being directly involved, Mr Prodi spent most of the campaign outside Italy, wrapping up his messages to voters in Euro-speak.

But a different interpretation may be that voters are going cold on the affable, yet less than electrifying, Mr Prodi. In regional and municipal elections held at the same time as the European ones, the parties in his alliance won a more respectable 34%. And the left did conspicuously well in Rome, whose mayor, Walter Veltroni, is one of the few credible alternatives to Mr Prodi as leader of the opposition. Mr Veltroni is widely thought to have done a good job running Italy's chaotic capital. Even some of those making protestations of loyalty to Mr Prodi are privately expressing interest in the “Veltroni effect”.

None of this is particularly good news for Silvio Berlusconi, the Italian prime minister. His Forza Italia party slumped to 21%, from 25% in 1999, and he had made the election a referendum on himself. Yet many of his fellow government leaders in Europe did worse; and his coalition partners actually did better than they had done in 1999. The message for both Mr Prodi and Mr Berlusconi is: “we like your friends, we're just not sure about you.”

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German elections

A Houdini runs out of tricks

Jun 17th 2004 | BERLIN
From The Economist print edition

AFP

Gerhard Schröder's ruling Social Democrats plumb new depths

NEVER underestimate Mr Schröder. The chancellor could turn things around, just as in September 2002, when he used the Iraq issue and floods in the east to stage a spectacular comeback and win the federal elections. That was the view even of opposition leaders before the European elections. But Mr Schröder's Social Democrats (SPD) did so badly that observers are now asking if Mr Schröder can cling to office until the next federal election, due in September 2006. Some are even wondering if the SPD, the country's oldest political group, can survive.

The European elections may not be fully representative, because of the low turnout of just 43%. Yet in some ways, the SPD's 21.5% showing, its worst in a national poll since the Federal Republic of Germany was founded in 1949, is worse than it seems. In parts of the industrial Ruhr, the party sank by over 15 points, as its core supporters stayed at home. In cities such as Berlin, Frankfurt and Munich, the Greens are now stronger than the SPD. In Thuringia, where state elections were held, the SPD won a mere 14.5%, and the (former communist) PDS surged to 26% (the Greens failed to reach the 5% threshold in Thuringia).

Yet Mr Schröder is unlikely to throw in the towel—for now. He is not the type to give up easily, and there is no obvious successor. Wolfgang Clement, the economics minister, would push more radical measures than Mr Schröder's pro-market Agenda 2010 reforms, which are already unpopular. Another possible replacement, Peter Struck, the defence minister, has health problems. Franz Müntefering, who took over from Mr Schröder as SPD chairman in March, still has work to do to stabilise the party. Nor is Mr Schröder poised to change tack over Agenda 2010. “I can only carry on with this policy and I only want to carry on with this policy,” he said this week.

The chancellor's options are limited. A cabinet reshuffle expected later this year is in danger of being written off as window-dressing. The government could try to give Agenda 2010 a more caring touch: next month the cabinet will have a special meeting to discuss reforms to Germany's health-insurance system. But besides these actions, Mr Schröder can do little more than hope that Agenda 2010 starts yielding positive results—and, above all, that economic recovery at last takes hold.

Yet Mr Schröder may be running out of time. The economy still looks moribund. And if the SPD continues to flop in elections, especially in the crucial May 2005 elections in North Rhine-Westphalia, Germany's biggest state and a traditional party stronghold, he will come under new pressure to make way for somebody else, most likely Mr Müntefering. If the opposition Christian Democrats win North Rhine-Westphalia, they will have a two-thirds majority in the Bundesrat, the upper house, and would then be able to block almost all legislation, even the budget.

It is hard not to feel some sympathy for Mr Schröder. His government has at last started to tackle some of the reforms that Germany badly needs. If the SPD is being punished more than it deserves, it is, says

the *Süddeutsche Zeitung*, because it has become the scapegoat for everything that Germans think is rotten in their country. It is also the victim of ambivalence over reforms: most Germans favour them, so long as they hit people other than themselves. The opposition should not crow too soon, for it could one day find itself in a similarly uncomfortable position.

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Russia's Yukos affair

The beginning of the endgame

Jun 17th 2004 | MOSCOW
From The Economist print edition

Russia's once-richest billionaire and his firm are finished; the question is, how

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AP

The trial begins

BUY! No, sell! As Mikhail Khodorkovsky, former head of the Yukos oil company, went on trial this week, after eight months in custody, Moscow analysts were spewing out conflicting recommendations on what to do with Yukos's plunging stock. In the year since the Kremlin's attack on Yukos began, spurred by Mr Khodorkovsky's use of economic and political clout to interfere with government reforms, a debate has raged about where it is all leading.

For Yukos, the answer seems to be: into near-oblivion. Running in parallel with the criminal trial of Mr Khodorkovsky and Platon Lebedev, one of his partners, is a $3.4 billion tax claim against Yukos, which the company says it cannot pay. It could, if it sold assets; but all its assets in Russia, apart from the oil it produces, have been frozen by a court. Worse, the tax claim is only for the year 2000. Further claims could, says Renaissance Capital, take the bill to $8.9 billion.

In short, the guessing is that Yukos will either go bankrupt, leaving a court to redistribute its assets; or be allowed to sell enough assets to pay the bills, leaving its shareholders—Mr Khodorkovsky chief among them—with a far smaller company. Last week Yukos's management offered the government such a deal. Bankrupting it would take time and damage both investor confidence and Vladimir Putin's carefully cultivated image as an economically progressive president. “Bankruptcy makes little sense,” argues the cautiously bullish Renaissance, which thinks that Yukos could survive in a trimmed-down form.

Maybe. But the government has shown no obvious interest in Yukos's offer. And the increasingly naked abuses of judicial power against the company—eg, giving its lawyers a few hours to read 342 volumes of evidence before the tax hearing last month—have unnerved investors. The Aton brokerage, urging its clients to sell their Yukos shares, commented that “the company's imminent bankruptcy makes any analysis largely meaningless”.

The courts' haste suggests that the authorities want it all over quickly. Before Yukos could be bankrupted, it might funnel out a lot of cash: although it takes in an estimated $400m-500m a month, its declared cash level has been inexplicably falling. That will do no good for the value of its assets. And continuing bad publicity will do little for Mr Putin's image. So Mr Khodorkovsky's main form of pressure is to drag things out. No sooner had his trial begun than he won an adjournment because one of his lawyers was ill. A man who stands to lose his company and liberty may not be in a good bargaining position; but he seems determined to go down fighting.

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Serbia and Bosnia

New faces, old faces

Jun 17th 2004 | BELGRADE
From The Economist print edition

A new man in Serbia's politics, and old ones in Bosnia

Get article background

BOGOLJUB KARIC is one of Serbia's best-known businessmen, whose interests include the country's biggest mobile-phone network. Now, like another famous businessman whom he sometimes apes, Italy's Silvio Berlusconi, he has emerged at the centre of Serbian politics. On June 13th Serbs voted for president, a not particularly powerful job but one whose incumbent can set the course of Serbian politics. The top two candidates go to a run-off on June 27th, which will feature, in the extreme-nationalist corner, Tomislav Nikolic, and in the pro-reform, pro-Europe corner, Boris Tadic, a former defence minister.

If Mr Nikolic becomes president, Serbia will drift back into isolation. If Mr Tadic does, Serbia has a chance of getting its reforms back on track. Mr Nikolic took 30% of the vote and Mr Tadic more than 27%. Both are now racing to attract the 18% who voted for the third-placed candidate: Mr Karic. The candidate backed by Vojislav Kostunica, Serbia's prime minister, got only 13%.

According to Srdjan Bogosavljevic, head of Strategic Marketing, a polling organisation, the run-off candidates are neck and neck. Mr Karic is trying to cut a deal with Mr Tadic, promising his support but saying he wants to be prime minister if the government collapses and new elections are held. In fact, Mr Karic may not be able to deliver his voters; but he has other powerful assets. He can exert influence through his media interests; he can slap up posters on billboards booked for mobile-phone advertising. And he is building a new party, whose name translates (in Italian) as: Forza Serbia.

Meanwhile Serbs in Bosnia are also wondering if the days to come will seal their fate. On June 11th a commission of the government of the Republika Srpska, the Serbian part of Bosnia, finally admitted that Serbian forces were responsible for the massacre of up to 8,000 Bosnian Muslims in Srebrenica in 1995. The commission did this partly because Paddy Ashdown, the international proconsul of Bosnia, had signalled that he would sack the Bosnian Serb leaders if they failed to acknowledge the truth that everyone else already knows.

But the consequences may be momentous. If there are guilty men, logically there should be arrests. The Hague war-crimes tribunal has indicted Radovan Karadzic, former Bosnian Serb leader, over Srebrenica, with his former military commander, Ratko Mladic. Carla del Ponte, chief prosecutor of the tribunal, expects Mr Karadzic to be in custody by the end of June. If that is done, Bosnia might be admitted to the Partnership for Peace, NATO's waiting-room, perhaps even at NATO's Istanbul summit on June 28th-29th. Serbia is also concerned with Mr Mladic, as he is thought to be hiding there.

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Charlemagne

Pieces of paper

Jun 17th 2004
From The Economist print edition

Would a European constitution really change the world?

WAKE up in Washington. Pay attention in Beijing. Something big is happening in Brussels. At a summit that was starting just as *The Economist* went to press, heads of government of the 25 European Union countries were planning, after much haggling, to agree upon a new constitution for their Union. According to Valéry Giscard d'Estaing, who chaired the convention that drew up the draft text, success will turn Europe into “a political power which will talk on equal terms to the greatest powers on our planet”. But failure could be catastrophic. When EU leaders deadlocked last December, Elmar Brok, a German MEP who was a leading member of the convention, said that, if the constitution was not agreed on, Europe could slip back into the inter-state rivalries that led to the first world war.

Authors always like to talk up the significance of their own work. But it is not just promoters of the constitution who think history is in the making. Eurosceptics in Britain and elsewhere claim that it will spell the end of a Europe of independent nation-states. The *Weekly Standard*, the bible of American neo-conservatives, declared a few months ago that the constitution is aimed at creating a European super-state to rival the United States, and concluded that it “might prove every bit as consequential as the liberation of Baghdad”. That is a double-edged comment today, but one knows what they meant.

Yet the idea that success or failure at this summit will shake the world needs qualification. Whatever Mr Brok says, a failure to agree will not take Europe back to war, even if it could lead to a split within the EU. Nor would success necessarily mean the emergence of a new superpower called Europe. That is because the contents of the constitutional treaty are ambiguous, and its relationship to the real world open to question.

Ever since the exercise began, a debate has raged between those, such as the British government, who argue that it is largely a “tidying-up exercise” and those who believe that it represents an historic advance for the process of European unification. The truth is that it has the potential to be either. A great deal will depend on what future generations of politicians and, especially, judges, make of it. Point to any apparently significant aspect of the constitution—the Charter of Fundamental Rights or the creation of a European foreign minister, for example—and somebody from Britain's Foreign Office will be at hand to explain that it is not as significant as it sounds.

The British have done dogged and effective work to pare back the more federalist aspects of the constitution. But it still has a number of legal and institutional innovations, including the charter, the creation of a single legal personality for the EU, more majority voting, the establishment of a foreign minister and a full-time president of the European Council. Combine them, and assume that the European Court of Justice puts a federalist spin on them, and the potential for a big increase in EU power is clear.

But there is another reason for caution about the significance of this particular document: a growing doubt about the ability of European politicians to define their continent's future simply by signing new treaties. Sooner or later the world outside the conference chamber, in the form of deteriorating economies, angry electorates or a divisive foreign war, is likely to disrupt even the most elegant political compromises and legal drafting.

Dismissing European treaties as inconsequential bits of paper has, admittedly, often proved a mistake in the past. All the main achievements in European integration, from the single market to the abolition of frontier controls to the creation of a single currency, started life as words in a European treaty. Sceptics often predicted that these diplomatic achievements would never make it into the real world; John Major, a British prime minister, once said that the pledge to create the euro had about the same potency as a

rain-dance. But in due time the heavens opened—and the single currency was born.

Enter reality

Yet, for all that, there is considerable potential for the real world and the constitution to collide. And if and when that happens, it will surely be the constitution that comes off worse. The very difficulty that European leaders have had in concluding negotiations points to the domestic sensitivity of the issues involved. The rise of Eurosceptic parties in this month's European elections underlines this again—as well as suggesting that ratification of the constitution will be extremely difficult. Both Britain and Poland, for example, are likely to hold referendums on the constitution; and yet, in both countries, parties deeply opposed to it came high in the polls.

Even if voters do not trash the putative constitution, European leaders might do it for them, by ignoring treaty commitments that prove too politically onerous. There are two recent examples of this process at work. The Maastricht treaty of 1992 proclaimed that EU countries would “actively and unreservedly support” a common foreign policy—language that is incorporated unchanged into the new constitution—and yet this did not stop Europe's total disarray over Iraq. Similarly, the stability and growth pact pledges members of the single currency not to run budget deficits of more than 3% of GDP, a commitment that is again enshrined unchanged in the constitution. Yet France and Germany are on course to violate the ceilings for four years in a row, and seem happy to continue doing so.

As the process of European integration advances into the heartland of domestic politics, governments are increasingly facing situations in which their commitments under EU law clash with domestic political imperatives. Current form suggests that, in such clashes, domestic politics wins. The most passionate supporters of the constitution are right that, if Europe is to become a superpower, European unity is required. But unity cannot be decreed in a conference chamber in Brussels.

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Politics

Blair's paradox

Jun 17th 2004
From The Economist print edition

AFP

Why, after such awful local and European election results, the talk of getting rid of the prime minister has dissipated

Get article background

TONY BLAIR and Michael Howard addressed their respective MPs in the House of Commons on June 14th. After pretty dreadful results for both Labour and the Tories in local government and European Parliament elections, the two leaders might have expected to find their troops in a despondent, even rebellious, mood.

Labour registered its lowest share of a national poll since just after the first world war, taking merely 22.6% of the votes cast for the European Parliament and coming third. For their part, the Conservatives had failed to get the 40% most analysts reckoned they needed in the local government elections to have even a slim chance of winning the general election. In the European Parliament elections, thanks to the anti-European Union UK Independence Party (UKIP), their share of the vote was also its lowest since the first world war. Voters evidently wanted to humiliate the government, but not to boost the Tories.

Yet despite the drubbing they received, neither party leader showed any inclination to change tack, nor came under any pressure to do so. Mr Howard made it clear that there was no question of trying to appease disgruntled Tories who had voted for UKIP by changing the party's policy on Europe (see article). Mr Blair admitted that Iraq had done a good deal of damage in Labour's heartland, but when one brave dissident MP invited him to apologise for the war, he declined to do so.

Nor was there any speculation about Mr Blair's leadership. The gossip of the last couple of months appears to have spent itself. Whether or not there are some who believe him to be a liability, it would be hard now to find a single Labour MP who does not expect Mr Blair to lead his party into the general election.

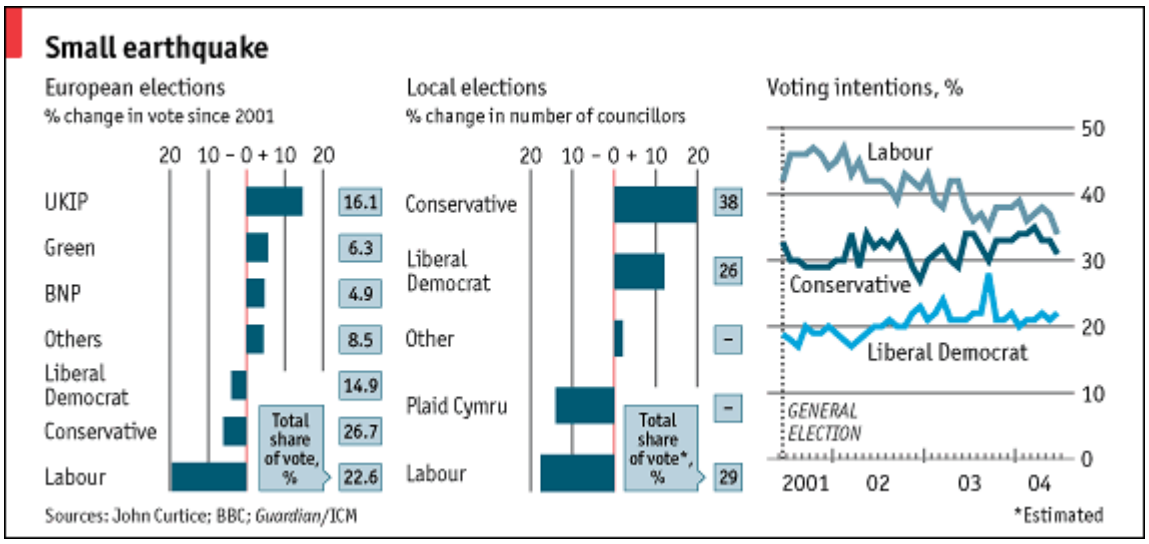
So why the calm? Largely because if this was a political earthquake, it was one that had left most people's assumptions largely intact. Tory bigwigs see UKIP more as an irritant than a menace. If you don't think much of the European Union, which most traditional Tory supporters don't, voting for a party that wants to quit the EU in an election for something as boring and silly as the European Parliament is a good way of showing it. When it comes to the general election, UKIP will evaporate, just as other protest

parties, such as the Greens, have in the past.

There may be an element of wishful thinking in this—UKIP is well-funded and media-savvy—but sensible Tories calculate that the way to marginalise UKIP is not by competing with it, but by making the Conservative Party look like an alternative government. And sensible Tories know that they still have some way to go in that task. UKIP is a threat mainly because it is a temptation to do the wrong thing.

As for Labour, despite the terrible kicking it has received from the voters, there is something close to complacency that it is still on track to win a third term with a fairly comfortable majority. When nothing much is at stake, voters are free to lodge a costless protest. Some people feel deeply about Iraq, others about Europe, but in a general election, the electorate is making a choice between competing visions of the kind of country they will live in.

In a characteristically ghastly piece of marketing jargon, Mr Blair reckons that what determines the outcome of general elections is the “forward offer”—what voters expect a party to deliver in the future, rather than how it has performed in the past—and that Labour's remains superior to the Tories. Or, to put it another way, the Tories have yet to find the big idea they need to displace a government that, while not much loved, still comes out ahead in most opinion polls (see chart) and consistently scores better on the issues that matter most to voters—the economy, health and education.



The one thing that could yet prove the prime minister wrong is the degree of apathy among Labour voters. According to the *Guardian*'s ICM poll, taken immediately after last week's elections, Labour supporters were a quarter less likely to vote than Conservatives. Paradoxically, if Labour's natural supporters think their party is safe, it just might not be.

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Nude cycling

Chain reaction

Jun 17th 2004
From The Economist print edition

Letting it all hang loose in a London park

Spexy beast

LONDON'S steely-nerved cyclists are a politicised bunch. Many hundreds fill the streets in a monthly anti-car protest called Critical Mass. This week cycling zealots persuaded several dozen peers and MPs to spend a few minutes on two wheels, with the aim of making city cycling seem less suicidal. And, on June 12th, in a more flamboyant gesture, around 50 naked cyclists rode around Hyde Park, one of London's stately royal parks, accompanied by cycling (though fully-clothed) police officers. There were similar, mostly smaller, protests in other cities around the world.

The London ride reflects a change in attitudes to nudity, not cycling. Britain is moving away from puritanical America and closer to continental Europe, where citizens disport themselves naked untroubled by censorious officials.

“It's a total breakthrough,” says Conrad Schmidt, the Canadian founder of the nude bicycling movement. The police, who only last year stopped a nude picnic in Hyde Park, were untroubled by this year's event. “Our biggest worry was whether people would find it offensive,” says Sergeant Tony Wright of the Metropolitan Police. “But they just looked on in wonder.” The naked are now threatened with prosecution only at a few beauty spots, like Yorkshire's beaches. Naturists are also delighted by a friendly new law on sexual offences.

In America, meanwhile, Virginia recently banned naturist youth camps, and in Chicago the display of any of 11 body parts carries a $500 fine. In New York the nudists didn't even consider riding for fear of the cops, says Mr Schmidt. Zero tolerance indeed.

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Newcastle

Problem drinkers

Jun 17th 2004 | NEWCASTLE-UPON-TYNE
From The Economist print edition

Anger at the spread of street drinking helped Labour lose an old stronghold

WHEN Newcastle's traditional industries disappeared in the 1980s, locals decided to use the city's thriving pubs and clubs to market the place as a round-the-clock party-time city. It worked, both by bringing in visitors with cash, and by making locals feel good about their city.

But now the party has outgrown the 127 late-licensed pubs in the centre, and has spilled over into the suburbs. And that is one of the reasons why the walls of an apparently impregnable citadel of municipal Labour power—Newcastle City Council—crumbled to dust last week, as the Lib Dems doubled their numbers on the council, ending 30 years of Labour rule.

Osborne Road in Jesmond used to be a quiet residential street with a few small hotels. Within staggering distance of the centre, the hotels are now massive pubs. At night, the road seethes with carousing drinkers. “People are not against development as such. But when children going to school have to avoid vomit on the pavements, people get upset,” says Pat Hughes, a resident who formed the Jesmond Network to fight the proliferating pubs.

Labour's hold on Jesmond has slipped away in recent elections. Last week, it lost its last councillor to the Liberal Democrats. Disgruntled local Labour activists blamed disaffection with Tony Blair and the Iraq war. Iraq did come up on the doorstep, says Ms Hughes, who stood for Labour in Jesmond. But the main issues, she says, were the pubs, the state of back alleys and pavements, education and the perception of rising crime. Don Price, a former Labour deputy leader of the council, admits that an “undoubted over-emphasis on cheap-party city” was part of the reason why Newcastle slid out of Labour's control.

The Newcastle result was a bit of an oddity in the north-east. In Hartlepool, Labour defeated the Lib Dems and won back power. Comfortable Labour majorities in Sunderland and Gateshead, councils rated “excellent” by the Audit Commission, were barely dented. Although Newcastle gets a “good” rating, the commission says that the majority of performance indicators are below average and that performance on education, a big priority with voters, is “disappointing”. Adjoining North Tyneside Council, rated “poor”, saw the Tories, hardly an anti-Iraq-war party, become the biggest party for the first time in the borough's history.

Peter Arnold, Newcastle's new Lib Dem leader, says that Labour did some good things. “The party-town image served a purpose,” he says, “but a lot of older people...feel intimidated by the boisterousness of young people.” Dealing with that, as well as the city's rather down-market image, is one of the new regime's aims.

Mr Blair's response on June 15th to this seismic upheaval uncomfortably close to his Sedgefield constituency was to predict that Mr Arnold will mess up and Labour will retake the city in two years' time, as happened in Sheffield. Mr Arnold, however, is modelling his administration on Liverpool. There, the Lib Dems ousted Labour in 1998 and the voters have shown little sign of wanting to change that.

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The American ambassador

Hid from our eyes

Jun 17th 2004
From The Economist print edition

William Farish may not be immortal, but he is certainly invisible

ALL ambassadors to the Court of St James are officially designated extraordinary, but William S. Farish, the ambassador of the United States of America, may be the most extraordinary of the lot: he is invisible. So, in large measure, are the 120 or so diplomats in his embassy.

Being invisible does not mean you are not doing your job, if you consider, as the embassy does, that the projection of America's foreign policy to the British people is not part of it. But the British media naturally look to the embassy when they want an official American spokesman to appear on their programmes, and never more than when America's foreign policy is as controversial as it is today and senior members of the administration seem reluctant to leave Washington. How often has the ambassador appeared on the two most influential current-affairs programmes, BBC Radio's early-morning “Today” programme or BBC Television's “Newsnight”? Once, on September 12th 2001, he gave a short statement on “Today”, but he has not risked a “Newsnight” appearance. He has, however, entertained over 1,600 guests at his residence in Regent's Park since he arrived three years ago.

American ambassadors to Britain are usually chosen more for their generosity to the president's campaign coffers than for their political acumen or ability to project policy. The real work in the embassy is often done by the deputy chief of mission, a career diplomat. One such, Raymond Seitz, performed so well in that role in the mid-1980s that he came back to London as ambassador in the 1990s, setting high standards in both jobs. So how does the present incumbent, David Johnson, compare?

Mr Johnson, an expert on Afghanistan perhaps chosen for the British job because of his knowledge of tribal politics, is certainly more active than his boss. With plenty of opportunities to stand in for Mr Farish, he sometimes entertains in the ambassador's residence, rather than his own. But he does not often appear on radio or television, or indeed in other public forums. Like many others in the embassy, he is a quiet American.

American residents in Britain who believe their government's policies in Iraq are not being adequately presented bemoan the “thunderous silence” emanating from the embassy. The topic took up a large part of the conversation recently at a private lunch in London for a senior White House aide. One neo-conservative believes it reflects partly a belief that shutting up makes life easier for Tony Blair, partly some diplomats' hostility to the administration's policies, partly orders from officials in Washington, including those in the National Security Council, to keep quiet. The NSC's “communications counsellor” reportedly passed through Britain a couple of weeks ago without publicly communicating anything to anyone.

As is usual at this time of year, nobs and snobs gathered this week at Ascot, for the smartest fixture in the horse-racing calendar. It is the sort of occasion at which Mr Farish, whose keen interest in bloodstock is said to have made him a friend of the queen's, is usually to be found. But no, he was in the United States.

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Gardens

Et in Arcadia Euro

Jun 17th 2004 | ALNWICK, NORTHUMBERLAND
From The Economist print edition

How a big new garden has been shaped by its many patrons

GRAND gardens cost a lot to make and so their designs reflect the whims of their patrons, whether those are to show off fashionable good taste or just to create a shady place away from the palace to meet a mistress and make like Pan. The first big landscape garden to be built in Britain since the 19th century is now under construction at Alnwick Castle near Newcastle. It was born of a marriage between the Duchess of Northumberland and the European Commission and its curious parentage is visible in its design.

The European Regional Development Fund has provided 29% of the £20m ($37m) that has been raised so far. The total budget of £42m includes £8.8m from the Northumberlands, who have also given the 40-acre site to the public. The aim is to build the garden with an equal share of public and private cash.

The public money, from five different bodies, comes with conditions attached. The garden will not just be full of pretty flowers; it will, apparently, teach citizenship, provide vocational training and “outreach”. Chris Gough, the head gardener, says it will be “interactive”: one corner will have raised flower beds so that wheelchair users can touch the plants, another will have poisonous species to teach children about drugs. Money from the private sector has left fewer traces on the design, though a team-building day for the local branch of Barclays bank has bequeathed a bed of acid-coloured azaleas.

The garden is expected to rescue the local economy too. There is evidence that this has started: the district council had over a hundred planning applications for tourist accommodation last year in what until now has been a hotel-free area. Economic regeneration is not a universally popular aim, though. Some of the ungrateful burghers of Alnwick now blame Jane Northumberland for increasing the value of their bricks, attracting rich buyers and unsettling their town.

Though the democratic thinking is, in part, a game that has to be played in order to woo funding, it has a visible impact on the garden. The brief was to design something that visitors would not find intimidating. The effect is slightly underwhelming, but when the deep-pocketed patron is not a wealthy individual but a series of public bodies that don't want to frighten people with too much grandeur, that is probably deliberate.

The design, like much of the money paying for it, is continental European. The duchess says she found the British designers she approached bickering and inflexible, and so she chose instead a design by Jacques and Peter Wirtz, a Belgian team who have not worked in Britain before. Not surprisingly, this angered many in the British gardening world. The history of British gardening has been largely Eurosceptic, with home-grown designers trying to create a less geometric look than mathematically minded continentals. The duchess also annoyed English Heritage, who wanted her to recreate one of the gardens that had previously occupied the site.

The Europeanness of the design has not put off visitors: 318,000 came in 2001-02, the garden's first year, when all there was to see was the horticultural equivalent of roadworks. Last year 530,000 visitors paid around £4 to take a look, even though construction workers are still moving earth around and attractions like the tree house are not yet completed. If only all the European Commission's half-finished projects were this popular.

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Television news

Boxing with Fox

Jun 17th 2004
From The Economist print edition

Ofcom ticks off Fox News for a rant against the BBC

“NEXT time you hear the BBC bragging about how much superior the Brits are at delivering the news rather than Americans who wear flags in their lapels, remember, it was the Beeb caught lying.” Thus John Gibson of Fox News, a news channel owned by Rupert Murdoch, celebrated on air in January when Lord Hutton's report slammed the BBC's sloppiness. But Mr Gibson went too far for Ofcom, Britain's media regulator. This week it censured the channel for failing to show “respect for the truth”.

Mr Gibson had accused the BBC of “frothing-at-the-mouth anti-Americanism” and said that it “felt entitled to lie and, when caught lying, felt entitled to defend its lying reporters and executives”. When asked to stand up the claims, Fox News pointed to the BBC's recent appointment of an independent scrutineer of its Middle East coverage (which, Fox said, has a pro-Arab bias). As further evidence, it cited the 47,200 hits returned by a Google search for “BBC anti-American”. For their part, BBC staff were delighted with Mr Gibson's tirade: it showed Fox News in its true colours, they felt.

Fox News will care little about Ofcom's judgment. Janet Alshouse, its vice-president of news distribution, says it has no intention of reshaping itself for a British audience. In America, the channel's gung-ho news values, and its backing of the war on terror, has made it the most popular cable news network and the channel of choice at the Pentagon. If Ofcom's disapproval mounts, Fox may switch off in Britain. That might be a pity: Fox News is the only American news channel broadcast abroad as it is at home. CNN, by contrast, has a different version for overseas.

Privately, Ofcom admits that it has a problem with foreign news outfits like Fox News and al-Jazeera, a Qatar-based channel hated by the Pentagon. Both stations come as part of a package from Mr Murdoch's BSkyB satellite-TV service, along with a Chinese government channel, CCTV-9. The regulator is obliged to enforce the 50-year-old British requirement of impartiality in news, which was designed when the airwaves carried only a small number of national broadcasters. Now there are many foreign news channels, often being regulated differently, if at all. America's Federal Communications Commission, for instance, is quite happy for news to be opinionated.

Television executives have debated impartiality for years. One side says the current system means British television news enjoys high public trust. The other says that impartiality is a mirage: viewers would be better off with a wide range of openly biased news. A recent government-funded report by Ian Hargreaves, a journalist and academic, recommended that the law allow a more opinionated style. That would better serve brown, black and young people, he argued.

This summer Ofcom will revise the rules it inherited from its predecessor, the Independent Television Commission, and it is likely slightly to loosen the one on impartiality. It may go further and draw a distinction between news channels aimed primarily at Britain and those made for overseas audiences. Like it or loathe it, Fox News—slogan “fair and balanced”—is probably here to stay.

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Police racism

The Macpherson millstone

Jun 17th 2004
From The Economist print edition

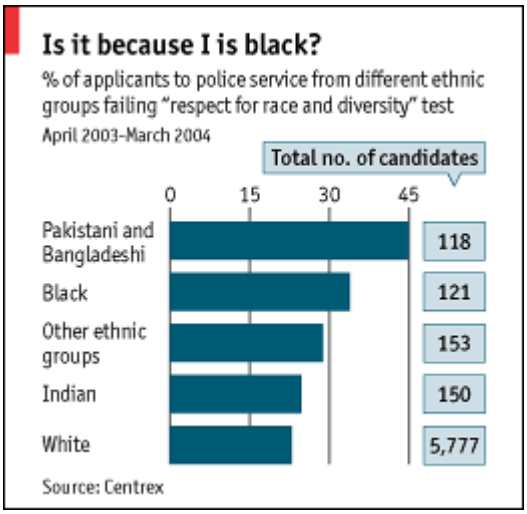
Efforts to combat racism in the police are failing. Time for a rethink

THE existence of institutional racism is so widely accepted these days that the concept has been institutionalised. The police first admitted the charge in 1999, following a damning report by Sir William Macpherson, a retired High Court judge. Sir William's definition—"the collective failure of an organisation to provide an appropriate and professional service to people because of their colour, culture, or ethnic origin"—is plastered on the walls of training centres and regularly drummed into new recruits. As an interim report published this week by the Commission for Racial Equality (CRE) reveals, though, it hasn't done them much good.

Before 1999, most coppers associated racism with a few "bad apples"—malicious officers who simply needed to be plucked out of the barrel. Sir William's report encouraged them to see it as an unconscious prejudice infecting the whole organisation. That is probably more realistic, which is not to say more useful. "Institutional racism makes sense if you have a PhD," says one senior officer. It does not, however, make sense if you are trying to reform an intransigent outfit like the police.

There are plenty of signs that, after several years of enlightened theory and much effort, the police have been unable to change their discriminatory ways. Between 1999, when the Macpherson report was published, and 2002-03, street searches of blacks and Asians in London increased by 89%, while only 22% more whites were searched. More vivid proof came from a BBC documentary in October, which exposed racism of the white-hooded type among police trainees and led to the current investigation.

As the CRE's report notes, one new attempt to screen out the unwittingly prejudiced seems to have had the unfortunate effect of reinforcing discrimination against ethnic minorities. Applicants to the police are now subjected to role-playing exercises and interviews designed to uncover their prejudices. If they fail, they are out. Nobody can explain why, but whites do best on the test (see chart): just 23% failed in the past year, compared with 34% of black applicants and 45% of Pakistanis and Bangladeshis.



Why have attempts to change police culture been so unsuccessful, even counterproductive? The problem seems to be that officers cannot understand how they can be collectively racist without being individually racist. Valerie Vaughan-Dick, who oversees the police's race and diversity training, reports that many trainees interpret institutional racism as "a slur on the whole police service". Confronted by the concept in the classroom, they simply cross their arms and keep quiet, knowing that they will soon be back in the station house, where different notions apply.

More sympathetic souls, meanwhile, find themselves at a loss for what to do. The bad apples theory may have been naive, but at least it pointed to a solution. It is much harder to know how to combat institutional racism. As a result, those who wish to do nothing tend to prevail. The paralysing effect of the label is so powerful, says Trevor Phillips, head of the CRE, that it has become a useful defence against reform: "People have used the concept of institutional racism as a means of preventing further inquiry."

This is true not just of the police. In the past two years, the "institutionally racist" label has been pinned to outfits as diverse as the NHS, the Football Association, and the theatre industry. As with the police,

the accusation has been met with a mixture of derision and a throwing up of hands. Time for a new concept.

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NHS and the private sector

Public money, private care

Jun 17th 2004
From The Economist print edition

Big NHS contracts and the arrival of foreign groups are shaking up the private medical market

A YEAR ago, the Labour government was convulsed in an argument over the future of the National Health Service. The debate was about a proposal to give a bit more local autonomy to NHS hospitals awarded “foundation” status. In the middle of this brouhaha, the government was quietly assessing bids from private medical groups to do elective treatments like hip replacements for NHS patients. The first ten public hospital trusts got “foundation” status in April and there was barely a ripple. But the results of that tender to the private sector are creating waves.

A new model for the NHS is emerging—one in which a big chunk of patient care is procured publicly but delivered privately. That prospect is already starting to transform the private medical market in Britain.

Until now, the independent sector has been a cottage industry in Britain. Its small scale reflected the dominance of the NHS, with a total budget this year of £82 billion, in both financing and providing health care. The annual turnover of the independent sector for acute medical services is £2.5 billion, providing 13% of all elective surgery, according to Laing & Buisson, a health-care market analyst.

In Labour's first term of office, the government was initially unenthusiastic about getting NHS patients treated privately. That changed in late 2000 with a “concordat” setting out the terms for a partnership with the independent sector. However, the scale of purchases remained small: around 60,000 procedures in 2002 according to the Department of Health compared with nearly 5m elective operations in the NHS. The arrangements were also expensive: the NHS has been paying around 40% more than internal costs to buy private operations. That partly reflects inefficiency in the independent sector, but it also reflects the higher expenses of meeting small-scale, ad hoc purchases.

The new tender introduced the potential for much cheaper provision since it was for bulk purchases of 250,000 treatments a year over a five-year period. But Britain's existing independent providers failed to rise to the challenge. Most of the successful bids for the 34 treatment centres were won by new entrants into the British market from America, Canada and South Africa. Swedish-owned Capio Healthcare, already operating in Britain, was also awarded some of the business.

This galling result forced Britain's domestic medical providers to rethink their business models. The first to respond was Nuffield Hospitals, the third largest by revenues. Together with Capio, it won a contract in April with a low-cost bid to carry out 25,000 operations for the NHS this year. Now BUPA, the country's biggest private medical insurer, has announced a big shake-up in its hospital business. It is streamlining its activities by selling ten of its 34 hospitals and is investing heavily in the remaining ones so that it can compete on lower prices. The independent sector is gearing up to deliver higher volumes at lower unit costs, says William Laing of Laing & Buisson.

A more efficient private sector will in turn put pressure on NHS providers. The first tender for 250,000 annual treatments amounts to about 5% of total NHS elective operations. But John Reid, the health secretary, now envisages this share rising eventually to 10-15%. The government wrangled endlessly over foundation hospitals. But this barely controversial policy will do a lot more to pep up the NHS.

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Bagehot

Howard's choice

Jun 17th 2004
From The Economist print edition

Michael Howard has chosen his battlefield for the next election, and it isn't Europe

Get article background

THERE is a character in “Dad's Army”, an ancient but oft-repeated British television comedy, called Corporal Jones. Whenever something goes wrong, which, since the programme is a situation comedy, it routinely does, Corporal Jones rushes around hysterically hollering at his comrades, “Don't panic! Don't panic!”

Both of Michael Howard's predecessors as Tory leader, William Hague and Iain Duncan Smith, had more than a bit of Corporal Jones about them: neither was what you might call steady under fire. Under pressure, both tended to go to pieces—a failing that quickly communicated itself to the troops under their command. It is a measure of Mr Howard's superior professionalism (not to mention what the American military calls “intestinal fortitude”) that he has refused to panic in the face of the spectacular gains made by the upstart UK Independence Party (UKIP) in last week's elections to the European Parliament (see article).

Although an uncomfortably large proportion of Conservative supporters apparently back UKIP's demand for “civilised withdrawal” from the European Union (57% according to one poll), Mr Howard knows that Europe ranks a long way down the list of most voters' concerns. He also knows that ratcheting up his own Eurosceptic rhetoric, as a number of his MPs and Tory newspaper pundits are demanding, will not make UKIP go away. Indeed, the more the Tories bang on about Europe, while continuing to insist that a policy of leaving the EU would be profoundly against Britain's national interest, the more they will feed the UKIP monster. Mr Howard's talk of renegotiating Britain's relationship with the EU may not be terribly convincing, but it is as far as he dare go if he wants his party to look like a responsible alternative government.

That being so, Mr Howard was wise, in the aftermath of election results that were only slightly less dismal for him than for Tony Blair, to turn his febrile party's attention to the real battleground of the general election—not Europe, not Iraq, not even immigration and asylum, but the public services. Mr Howard is aware that a feature of the Tories' campaigning over the last few weeks was the absence of any positive reason why people should vote for them. It's one thing to accuse the government of failing to deliver, but it's quite another to convince voters that the Conservatives might do better.

To that end, Mr Howard first reshuffled his shadow cabinet, abandoning the failed experiment of having a single, not very industrious, spokesman covering both health and education. The two new members of Mr Howard's top team, Andrew Lansley, who has the shadow health portfolio, and Tim Collins, with education, are both energetic and determined, although Mr Collins's bumptiousness can grate.

Secondly, in an important speech, he attempted to set out the philosophical differences between the Conservatives, who would offer everyone the right to choose their health care or schooling, and Labour, whose efforts at reform were undermined by its obsession with centralisation and monopoly provision. Mr Howard hopes that “the right to choose” will resonate with the same kind of people who voted Tory for the first time in 1979 because they were promised “the right to buy” their council houses. He also thinks that it is easier to grasp than the idea of health and education “passports”—vouchers by another name—that have been Tory policy since last year. As Mr Howard has discovered, despite the superficial attractiveness of vouchers, designing an affordable and simple scheme which doesn't offend British notions of fairness is difficult. Over the next few weeks the Tories say they will progress from general principles to outlining practical proposals.

But while Mr Howard is right to choose to fight Labour over public services, the field is strewn with hazards. The Conservatives may have committed themselves to “investing”—a New Labour euphemism taken up by Mr Howard—even more in health and education than the government intends, albeit offset by a virtual standstill in other departments. But Labour's jibes at Tory fondness for spending cuts remain potent.

Mr Howard will also find it difficult to develop slogans that differ markedly from Mr Blair's. When Mr Howard was making his speech on June 15th, Mr Blair was using almost identical language at his monthly press conference to describe the next stage of his public-service reform agenda. Desperate to escape what he calls the “shadow of Iraq” and the charge that he prefers gadding about abroad to rolling up his sleeves at home, Mr Blair will be setting out his plans in the weeks ahead to extend choice and the “personalisation” of services.

Getting harder all the time

But Mr Howard's biggest problem is that the government may already be taking reform of the NHS about as far as is possible without dismantling its entire funding structure. By introducing competition within the system from foreign health providers, it has shaken up Britain's formerly ossified, consultant-controlled health market. As a result, prices are falling. The government is also busy buying up much of the remaining spare capacity in the private sector in its effort to push down waiting lists. By the time of the general election—probably next May—the maximum waiting time for an operation should be down to six months. The health service is changing and there are signs, if the government's private polling is to be believed, that even cynical voters are at last beginning to notice.

Michael Howard has to persuade voters that his policies are distinctive and radical without allowing Labour credibly to claim that his real aim is to destroy the NHS. It's a fine line to tread. It would have been easier a year ago than it is now, and it will be harder still in a year's time.

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Conspicuous consumption in China

Luxury's new empire

Jun 17th 2004 | HONG KONG AND SHANGHAI
From The Economist print edition

ImagineChina

Are the Chinese replacing the Japanese as the world's most fanatical shoppers?

THREE ON THE BUND is a vision of the future of Chinese consumerism. The grand, newly refurbished building, first erected on Shanghai's historic waterfront in 1916, houses a top-notch restaurant to satisfy the stomach; an ultra-chic contemporary art gallery to stimulate the mind; and a reassuringly expensive spa (with indoor canals improbably filled with Evian water) to pamper the body. At its heart is a luxury-goods store. Arrestingly lined with metal and hemp, the Armani outlet is the firm's biggest in Asia outside Japan. Georgio Armani himself, say his underlings breathlessly, flew in before the recent opening to check personally every fitting, so besotted is he with China's potential.

As with so much in China, the promise is indeed vast. The industry estimates there are now around 10m-13m mainland customers for luxury goods—mostly entrepreneurs and young professionals working for multinational firms. Most live on the country's eastern seaboard in big cities such as Shanghai, Beijing and Dalian.

Many luxury firms see Chinese shoppers as the new Japanese—a potentially huge group of status-conscious, increasingly wealthy people hungry for brands and fanatical about shopping. But the Japanese, long the industry's stalwart shoppers, are increasingly spending their money on cultural and culinary pleasures.

In China, attitudes to luxury have changed dramatically from just a few years ago, when any form of ostentation was frowned upon. Today's Chinese, above all the young, love to flaunt their status. Claire Kent, an analyst at Morgan Stanley, says that, whereas people in the West are buying more discreetly branded luxury goods identifiable only by those “in the know”, the Chinese favour prominent logos that shout, “Look, I'm rich.”

Until recently 90% of all luxury spending in China was by men. But, says Hugues Witvoet of LVMH Investment Asia, more Chinese women are buying brands to assert their independence and to feel good.

Dragon attack

Luxury-goods firms are thus becoming wildly excited about the possibilities—in China and beyond. Armani plans to open 20-30 new stores on the mainland by 2008. Prada will invest $40m in China in the next two years, and almost double the number of stores there this year to 15. Louis Vuitton will open its first full-range shop on the mainland in Shanghai in September, and will have 13 stores by year end.

As the Chinese travel more, they are broadening not only their minds but also the range of luxury goods they come into contact with. Once abroad, their favourite activity seems to be shopping. During last month's Golden Week holiday, around 380,000 mainland tourists visited Hong Kong in just ten days, almost 80% up on 2002. (Last year, SARS kept numbers down.) Mainlanders spend more per person in Hong Kong than any other tourists. From this summer they can travel as individuals to 12 of 15 EU countries (but not Britain, Ireland or Denmark).

“The Chinese go to Paris, stay at two- star hotels, eat cheap Chinese food and spend all their time shopping,” says a luxury-firm executive with glee. Christopher Zanardi-Landi, general manager in China for Louis Vuitton, says that the industry is preparing for “a huge wave” of Chinese shoppers. While they have hitherto catered mainly to Japanese tourists, “luxury stores in Paris are starting to employ Mandarin-speaking assistants,” he says.

But for now, Hong Kong remains the favoured destination for mainlanders. That is why so many luxury stores are opening in Hong Kong. In the past three months, Zegna, Ferragamo, Louis Vuitton, Prada and Dior (among others) have opened in bigger and better-designed spaces. Hong Kong's property developers are delighted.

Making money on the mainland is rather harder. Morgan Stanley's Ms Kent says that luxury firms “are unlikely to see a payback in China for at least five years because of the higher costs of doing business there and limited demand in the short term.” On a weekday afternoon, Plaza 66, the current Mecca for luxury-goods shoppers in Shanghai, is depressingly empty—the most dedicated “shoppers” turn out to be fashion editors loading up for photo shoots. Prices are the reason, says Helen Jiang, chief fashion editor at Biba, struggling with boxes of Fendi strappy sandals: “Who really can afford this stuff?” Higher taxes and duties mean that mainland prices can be 30% more than in Hong Kong. Even stores admit this. Linda Gong, manager at Versace in Plaza 66, says that many “shoppers would rather go to Hong Kong and Europe where the prices are cheaper.”

Still, Prada says that, after ten years, it is profitable in China, and Louis Vuitton says China is now its fourth-biggest market by sales. But Burberry and Zegna, which are spending frugally on numerous no-frills stores or franchises in secondary cities, are probably making the best returns. Zegna says that it is profitable.

A low-cost strategy may not be the best way to build brands in the long run. Alan Chan, who designed much of the interior of Three on the Bund, says that “Plaza 66 has never done well. But that doesn't matter. Shanghai is positioning itself as a theatre to show what can be done in China.” At a party on the eve of Golden Week to open Prada's ninth store in Hong Kong, Riccardo Stilli, the company's finance director, revealed that Rem Koolhaus, who created Prada's $40m famously arty space in Manhattan, will design a new “concept” Prada store in China—probably in Shanghai. Mr Stilli argues that big, high-profile stores with full ranges educate consumers about a brand and feed an appetite for spending overseas. “Returns on single stores are neither here nor there,” he says “What matters is the worldwide impact.”

But big investments could prove wildly misjudged. Andy Xie, an economist at Morgan Stanley, thinks that an investment bubble in assets such as property “has exaggerated China's income growth”, creating a hot but unstable market for luxury goods that could quickly collapse.

Meanwhile the industry faces a more immediate crisis—piracy. While Mr Armani calls counterfeiting “flattering”, privately the industry is worried—though not, it seems, enough to stop it exploring the potential of China's workers, as well as its shoppers. Despite concern that being made in China could cheapen their brand appeal, firms such as Coach, Paul Smith and Armani have already shifted some manufacturing to the mainland.

But piracy certainly threatens the exclusivity of luxury brands. Most newly wealthy Chinese still want the real thing, but as a rule the Chinese are far more price-conscious than the Japanese. And younger consumers are happy to mix cheap fakes with genuine products, and may even prefer pirated versions. Those cities determined to police piracy—notably Shanghai—cannot control it. Steven Liew, head of anti-counterfeiting at LVMH Fashion Group in China, is still shocked at the extent of the problem. “People turn up in our stores with a fake Louis Vuitton bag and ask what the difference is. It's outrageous.” But clearly

not outrageous enough to stop the luxury industry rushing in.

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China's car industry

The rich hit the road

Jun 17th 2004 | BEIJING
From The Economist print edition

Luxury cars are driving fast into China

EPA

Can I trade in the trike?

ONCE it was assumed that when Chinese consumers could finally afford to buy cars, they would want basic, inexpensive models. But China, like every market in the world, has a wealthy minority that wants to drive something more racy or luxurious, especially from a famous marque. Although luxury cars account for only about 2-3% of car sales in China, that still adds up to a possible 120,000 vehicles to be sold in the country this year. And, as in the rest of China's car industry, this is causing competition to hot up.

At this month's Beijing motor show, Toyota's luxury division, Lexus, announced that it will open 14 Chinese dealerships in the coming year. Ford is to start selling cars from two of its upmarket brands, Aston Martin and Jaguar. Even Italy's Ferrari is coming. Cars from General Motors' luxury division, Cadillac, arrive in Chinese showrooms later this year—imported at first, but eventually made in China. Germany's BMW has already begun producing a version of its 5-Series in Shenyang, and Mercedes-Benz is preparing Chinese-made versions of some of its models. “By 2010, China could represent 15-20% of our total volume,” says Mark LaNeve, Cadillac's general manager.

This is a huge change from barely a decade ago when there were few private cars of any kind on Chinese roads. Now, in Beijing alone, some 1,000 cars a week are being added to the city's vehicle fleet.

So far this decade, demand for cars in China has grown at double and even triple-digit annual rates. This year, the pace has slowed a bit, and sales have actually declined in April and May as Chinese authorities have struggled to cool a red-hot economy. And yet, even with these declines, sales were up 21% in first five months of this year over the same period last year. With 5m vehicles likely to be sold this year, China is now a bigger national market by volume than Germany. China could soar past Japan by 2007, making it second only to car-crazy America.

So, as well as their luxury-vehicle projects, carmakers have been announcing production increases in China across most of their ranges. GM plans to double its production capacity in China, at a cost of $3 billion, and Volkswagen is investing €5.3 billion ($6.4 billion) in its facilities. New investment in China's car industry announced in the past year or so exceeds $13 billion, according to research by Automotive Resources Asia (ARA), a consultancy.

“We're going to see overkill, just like we have in other industries,” says ARA's founder Michael Dunne. He

points to China's over-optimistic television manufacturers, who now have four times more capacity than they need.

There is, however, a potential safety valve. A new Honda plant will be devoted specifically to exports. Volkswagen hints that it will begin exporting from China as well, and others could follow. Chinese factories have long been seen as too inefficient to export—and perhaps the coming exports will bring in only enough revenues to cover marginal production costs, not total costs. Successful exporting will require the Chinese assembly plants to keep their quality levels high—something consumers abroad have come to expect of their cars, luxury or not.

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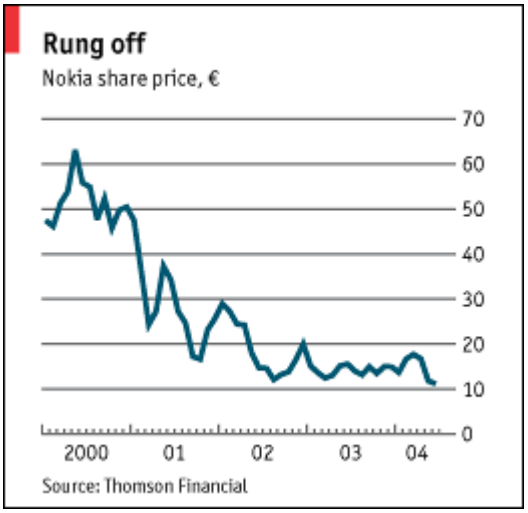
Nokia

Too many candy bars?

Jun 17th 2004 | HELSINKI
From The Economist print edition

Problems at the world's largest maker of mobile phones



WHAT has gone wrong at Nokia? The Finnish firm, the world's largest maker of mobile phones, ought to be on a roll. The industry is booming: analysts keep having to raise their estimates of the number of handsets that will be sold this year, now expected to exceed 600m. Sales are being driven by strong growth in the developing world and an upgrade cycle in the developed world, where consumers are trading up to fancy new telephones with cameras and colour screens. And after years of delay, phones based on third-generation (3G) technology are finally taking off in Europe. As the leading handset maker, known for its design and technological prowess, Nokia should be benefiting from these intersecting trends. Instead it is in trouble.

Its share price, already way below its peak, has fallen by nearly a third since April, when Nokia issued a warning that weak sales in the first quarter would mean that profits would be lower than expected. Figures from Gartner, a market-research firm, have since confirmed this: Nokia's market share plunged from 34.6% in the first quarter of 2003 to just 28.9% a year later after hovering around 35% for years. What is to blame?

The standard answer is that Nokia failed to anticipate demand for flip-phone or “clamshell”-type handsets, which are wildly popular in Asia, choosing instead to stick with its trademark non-folding or “candy bar” design. This, plus an unappealing product line-up, particularly of mid-priced phones, meant it lost share to Motorola and Samsung, both of which offer clamshells. This week Nokia addressed this criticism, unveiling five new handsets, three of them clamshells. According to its chief strategy officer, Matti Alahuhta, Nokia has adjusted its product line-up, killing off some products and speeding up the launch of others, to address its weakness in the mid-range. And the company has quietly launched several other new models recently, as well as the five this week.

Yet its problems go far deeper than the clamshells. Nokia really faces three distinct problems, argues Ben Wood of Gartner. It has lost its edge in design: many of its handsets look staid and dated. Today's phones from other vendors are more stylish than many of Nokia's chunky-looking models. “This has nothing to do with clamshells,” says Mr Wood. “If they had been able to stay ahead with candy bars, they wouldn't have this problem.”

Second, Nokia is partly a victim of its own success. It is hard to be cool if you are also the industry's incumbent. Nokia's dominance has made it a target for everyone else in the industry. Network operators, wary of being too reliant on Nokia, are increasingly turning to smaller vendors from Asia to supply handsets. Nokia's reluctance to customise phones for specific operators, a policy it has since reversed, did not help. Finally, a reorganisation late last year, which created separate units for mass-market, business and multimedia phones, caused Nokia to take its eye off the ball. The reshuffle made sense strategically, but amid its enthusiasm to create snazzy new devices, such as music-player and gaming handsets, Nokia briefly forgot that most people simply want phones.

This week's new products are only part of Nokia's effort to fight back: it cut prices to spur sales in the second quarter and plans another 20 or so new handsets before the end of the year. Nokia executives observe that it has suffered blips in its market share before, and insist that the desire to regain the initiative has galvanised the entire organisation. In particular, Mr Alahuhta recalls how poor logistics

caused Nokia's stumble in 1995. It prompted the company to overhaul its supply chain, so that it is now one of the most efficient in the industry. “Difficult times make companies stronger,” says Mr Alahuhta.

But whereas Nokia may yet claw its way back above a 30% market share, sceptics such as Mr Wood doubt that it will ever reach its long-term goal of 40%. The industry has become far more competitive, and the balance of power seems to be shifting away from Nokia towards both network operators and Asian handset-makers. Perhaps the switch to 3G will help Nokia: its stylish new 3G handset unveiled this week, the 6630, is expected to do well when European operators start pushing 3G in earnest later this year. But it will be many months before Nokia's current difficulties reveal themselves to be just another blip, or the signal that its dominance of the industry is coming to an end.

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Corporate social responsibility

Bluewashed and boilerplated

Jun 17th 2004 | NEW YORK
From The Economist print edition

A breakthrough in international corporate diplomacy

AP

Taking care of business?

LAUNCHED four years ago, the “Global Compact”, a UN initiative to bring big business and its critics together, has not always lived up to its lofty goal of forging an “inclusive dialogue” on globalisation. Non-governmental organisations view the UN's new friendliness towards business with suspicion. Anti-globalisers are downright hostile to the “bluewashing” of sullied corporate reputations with the UN's hitherto untainted brand. Most American firms, meanwhile, have refused to join the compact, depriving it of those presumed to be most in need of re-education. Yet on the eve of a stock-taking summit in New York on June 24th come signs that even American firms are warming to what the UN calls a “spontaneous global movement”.

The compact is the personal initiative of Kofi Annan, the UN's secretary-general. Speaking at the World Economic Forum in Davos in 1999, Mr Annan challenged big business and the UN to come together to make globalisation more “equitable” and “sustainable”. The resulting compact has since drawn up nine core principles, covering the environment, human rights and labour standards. A tenth, covering corruption, will be added at the June summit. Firms joining the compact are expected to make a “sincere effort” to aspire to these principles. Those daunted by the challenge of behaving responsibly get to use a “learning forum” and “multi-stakeholder partnerships” to help them up the high road. In return, the UN blesses member companies and helps to publicise their good deeds.

The compact promotes the philosophy of the corporate social responsibility movement. This argues that it is in the interests of big business and its shareholders to behave as responsible global citizens, because that reduces business risks. But American firms are “behind” in their thinking, says Georg Kell, the compact's head. Good works are still seen as corporate philanthropy in America, says Mr Kell, often dished out according to the personal whims of the boss. Nor do American firms have the same sort of warm and fuzzy feelings towards Mr Annan or the UN that foreign ones tend to harbour, and thus see less value in associating themselves with the UN's brand. Of the 1,400 companies that have joined the compact so far, say UN officials, a paltry 4.5% come from America.

This may now be changing. One of the biggest problems so far has been that American firms fear lawsuits if they sign up to labour and environmental standards which adversaries might then claim they are not honouring. This problem is now resolved, says Mr Kell. After a three-year effort by the UN and the American Bar Association, American companies can commit to the principles using a letter, full of legal boilerplate, which shields them from lawsuits based on claims that they have failed to live up to the compact. This letter became available last month, says Mr Kell. American companies such as Gap, Starbucks and Newmont Mining have rushed to sign up.

As the compact prepares to celebrate this bit of creative lawyering, opponents are stepping up their campaigns too. On June 23rd, one day before Mr Annan's summit, a coalition of NGOs, including EarthRights, Friends of the Earth, Greenpeace and Amnesty International, is holding a “counter-summit” at the UN in New York. This group says that the compact is “little but a public-relations cover for global corporate malefactors.” The first item on its agenda? “Greenwash, bluewash, and the corporate takeover of the UN.” Maybe Mr Annan too needs some legal protection.

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Alitalia

Wing and prayer

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From The Economist print edition

Can Italy's flag carrier survive?

Get article background

ALITALIA'S obituary has still to be written. But a letter from its auditors, Deloitte & Touche, on June 10th to the airline's shareholders—the government is the biggest with a stake of 62%—has prepared them for the worst. Such is the uncertainty about Alitalia as a "going concern" that the auditors were unable to express an opinion on their client's accounts for 2003. With an operating loss of €379m ($428m) last year, Italy's flag carrier dived even deeper into crisis.

Lacklustre economies in Italy and other European countries, the impact on travel of the September 11th terrorist attacks and, lately, higher fuel prices, are beyond Alitalia's control. Nor does Alitalia bear all the blame for the off-putting inconvenience of its two Italian hubs, Rome's Fiumicino and Malpensa, near Milan. Yet the airline's managers have long neglected opportunities to boost efficiency. At the very least, they must rationalise its medium-haul fleet and do what their predecessors dodged for years—reduce its workforce. Only by cutting at least 1,500 of 21,000 jobs, adding to flightdeck workloads, outsourcing more and revamping its sales network, will Alitalia have any hope of survival.

Giancarlo Cimoli, the boss since May 6th, is drawing up a plan that the government, which moved him there from running Italy's railways, hopes will pull Alitalia out of its plunge. But Mr Cimoli's is Alitalia's third plan in nine months. And it is fast running out of cash. It had around €250m at the end of March—enough to avoid a cash crunch in the next four months, but maybe no longer.

The letter from the auditor refers to the possibility of raising a fresh bank loan of perhaps €400m. That would depend on securing government guarantees, and already has other airlines crying foul. That loan could be only a stop-gap as, ultimately, Alitalia needs more equity. But by qualifying its accounts on "going-concern" grounds, the auditors made it impossible under Italian law to tap the stockmarket.

Is this the final touchdown, then, for Alitalia? Although Italian law prevents Alitalia, in its current condition, from seeking fresh funds, it does not prevent investors from offering them on their own initiative. What rational investor would put money into the airline? The answer seems to be Fintecna, a cash-rich concern owned by, er, the Italian treasury. No wonder Alitalia's competitors are squealing, and EU officials are watching closely. Yet unless fresh cash arrives from somewhere, the meeting of Alitalia's shareholders called for June 25th to approve last year's accounts may be the last of its kind. The one after that might have liquidation on the agenda.

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Pharmaceuticals

Trials and tribulations

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New pressure on drug companies to reveal all about their clinical tests

Get article background

THE decision by Eliot Spitzer, New York state's combative attorney-general, to focus his attention on the drug industry may already be bearing fruit. On June 2nd, Mr Spitzer filed a lawsuit alleging that GlaxoSmithKline (GSK), the world's second-largest drug firm, had concealed results from clinical trials of its antidepressant Paxil which showed that it was, at best, ineffective in children and, at worst, that it could increase their suicidal thoughts. He accused the firm of “repeated and persistent fraud”, allegedly promoting the drug, all the same, for use in children. GSK has not merely denied the charges: it has published data from the trials in question on its website, and it is now planning to introduce a policy of releasing to the public the results of all its clinical trials.

As with his lawsuits against Wall Street and the mutual-fund industry, Mr Spitzer has shed light on questionable practices in an industry that had regarded them as normal. Drug companies must submit all their clinical data to drug regulators in order to win approval for a new product. But they have no legal obligation to disseminate such information to a wider audience—though there is no shortage of outlets where they could do so, ranging from a dozen or so publicly accessible clinical-trial registries to scientific journals or conferences. The result, says a new report published by the American Medical Association (AMA), is “publication bias”. Trials with positive results tend to be published more frequently and rapidly than those with negative or inconclusive outcomes.

Critics argue that drug firms are desperate to conceal any bad news that might affect their product's chances and thus hit their share price. More likely, says John Schaetzl, a health-care investor at GE Capital, they did not consider publication a priority in part because it was not something that interested investors. Thanks to Mr Spitzer, they are interested now.

On June 15th, the AMA approved a proposal calling on America's Department of Health and Human Services to create a registry for all clinical trials conducted in America. Results from these trials would be published or put in an electronic database. To get firms and academic researchers to participate, the association will urge institutional review boards, which are in charge of approving clinical-trial protocols at hospitals and universities, to allow only those trials which have registered.

Meanwhile, members of the International Committee of Medical Journal Editors are hammering out a scheme that may require all researchers to register their clinical trials in a publicly accessible database if they want to see any of their eventual data published in these journals. According to Catherine De Angelis, editor of the *Journal of the American Medical Association*, firms that choose not to participate could lose a prestigious means of spreading news about their drugs to physicians.

Greater transparency may ward off Mr Spitzer, and help improve public trust in the drug industry. But, as with drugs themselves, there will be side-effects, says Stewart Adkins of Lehman Brothers. Drug firms might not test certain more speculative applications of a drug if they know they will have to publicise the results.

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Salesforce.com

Crème de la CRM

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Google is not the only promising tech firm floating its shares this year

Benioff goes quietly

THE initial public offering (IPO), later this year, of shares in Google, a popular internet search engine, has hogged the headlines, and the impressive discipline of Google's bosses in honouring the “quiet period” that securities regulators expect before such a stockmarket listing has only added to the firm's mystique. The IPO of Salesforce.com, a pioneer in the $7 billion market for so-called customer-relationship management (CRM) software, is a bit different. Marc Benioff, Salesforce.com's boss, has been frivolous about his quiet period. A famously gregarious entertainer and cocky marketer—he proposes “CRM” for his ticker symbol, the equivalent of, say, Porsche asking for “CAR”—Mr Benioff finds it hard not to talk to journalists. As a result, he has annoyed regulators into delaying his company's stockmarket debut, orginally scheduled for May.

Yet Google and Salesforce.com, founded within a year of each other during the dotcom boom of the late 1990s, are not so dissimilar. The “vibe”, as Californians like to say, is the same. At Google's headquarters in Silicon Valley, employees zip around on Segway scooters and keep lava lamps in their cubicles. Salesforce.com inhabits an office above a trendy eatery in San Francisco where rooms are named after Hawaiian islands, a prominent yoga teacher comes in on Tuesdays and Thursdays, and the most visible member of management is the “chief love officer”: Koa, Mr Benioff's golden retriever.

Although their audiences are different—the sales departments of companies for Salesforce.com, consumers all over the world for Google—their technological visions are similar. Both have achieved success by finding new and simple ways for people to use their web browser. Google has done this by improving the way that people find information; Salesforce.com by enabling the salespeople of companies to access and manage all their information on clients' accounts, and to market through a simple web page that intentionally looks a bit like Amazon's or eBay's.

Mr Benioff's vision for transforming the CRM market in particular and business software in general has some of the same potential that Google's has for changing how people use the internet. Mr Benioff's goal, he says with typical hyperbole, is to put an “end to software”. By this he means liberating firms from current practice in the software industry. Traditionally, firms pay for new software initially with large licence fees, and then spend more money and time trying to install the new applications on their computers and training employees to use the new features. Every so often, when a software supplier upgrades, they have to start from scratch.

With Salesforce.com's service, by contrast, companies rent software rather than buy it—for $65 per user per month. If they hire more people, they pay more. If they lay people off, they pay less. They do not need to invest in new hardware or technology staff, nor install software on existing computers, as all the computing takes place on Salesforce.com's machines. Users (mostly salespeople) access the service through a web browser wherever they are. The interface is familiar enough that training usually takes hours rather than weeks.

The technical term for a company such as Salesforce.com is an application service provider (ASP). That may make anybody who remembers the boom and bust of the first generation of ASPs during the dotcom bubble sceptical. Those forerunners also promised a software revolution by hosting the software applications of companies. But they failed because they simply recreated each client's complex and

unwieldy datacentre in their own basements, and never overcame the old problems of installation and integration with other software. With each new customer, the old ASPs had, in effect, to build another datacentre; there were few economies of scale.

The second generation of ASPs is different. When Salesforce.com signs up a new client, it simply creates an account on the software platform that ties together its farms of server-computers. In investor jargon, it therefore has huge operating leverage: the initial start-up costs for hardware and software were high, but since break-even each new client's revenues have been almost pure profit. Salesforce.com made its first profit, of $3.5m, in the fiscal year that ended in January. It has signed up 9,800 firms with 147,000 subscribers.

Although still small, Salesforce.com has already caused an upheaval in the CRM industry. Rival start-ups with similar business models have emerged, such as RightNow Technologies, NetSuite and SalesNet. The CRM industry's leaders, Siebel Systems and PeopleSoft, have lost some momentum to Salesforce.com and have belatedly started offering their software as a service through the web. This leaves them awkwardly praising their fledgling web offerings while at the same time preaching that the old model of selling software, their revenue mainstay, is still the best way for most customers.

They use two main arguments against the ASPs. First, software as a service is much harder to customise for the special needs of big firms. Second, it is harder to make it work with a firm's existing software applications. “Companies want their CRM to integrate with their billing system and everything else,” says George Ahn, the CRM boss at PeopleSoft. Salesforce.com's motto—“No Software”—is thus hot air, says Mr Ahn, because it takes lots of software and fiddling to get it to link to the rest of a client's systems. “There is no magic pixie dust that makes integration go away.”

Mr Benioff shrugs (note to regulators: this was before the quiet period). The evolutionary advance of the second generation of ASPs over the first is precisely that customers can now customise their pages, as easily as consumers arrange their Yahoo! or AOL pages to their liking. And the task of integration too has been solved. In fact, argues Mr Benioff, clients can do themselves a favour by letting Salesforce.com worry about hooking their various systems together. Increasingly, the vision says, all that users need to understand is how to navigate a web page, leaving them to get on with life. That is the same for Salesforce.com as for Google.

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Face value

The litigious yogi

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Bikram Choudhury is trying to do to yoga what McDonald's did to food

ACCORDING to Patanjali, the great sage of yoga who lived in the second century BC, yoga is about bringing the mind to complete stillness and thus reaching liberation from mental delusions such as anger, egoism and greed. This may not be immediately evident if you are in a yoga class taught by Bikram Choudhury. Bikram—he prefers to go by his first name only—teaches a series of 26 postures in a room heated to 41 degrees Celsius, with mirrors on all sides for better views of the sweaty bodies. “What is yoga? Shit together,” he preaches through his microphone. “Bullet proof. Sex proof. Fire proof. Wind proof. Everything proof,” he says on another occasion. “If you can take my shit, one day you will become a better person.”

Bikram is to the yoga world what fast food is to the culinary world. He is supremely responsive to the needs of the modern, western marketplace (15m people practice yoga in America alone), and thus popular with the yoga “masses”. And he is looked down upon by yoga's gourmets, who tend to practice the Iyengar or Ashtanga style of yoga. Like B.K.S. Iyengar and Pattabhi Jois, two fellow Indians who are associated, respectively, with the gourmet schools, Bikram (www.bikramyoga.com) has found celebrity and wealth through yoga. In fact, judging by his fleet of Bentleys and Rolls-Royces and his villa in Beverly Hills, Bikram probably has the edge over his upmarket rivals.

His main claim to controversy, however, is that he seems determined to take the analogy to fast food to its logical extreme. Just as McDonald's franchises its branches, Bikram wants to franchise his style of yoga to the more than 900 studios around the world that were started by his former students. To this end, he has trademarked phrases such as “Bikram Yoga”, “Bikram's Basic Yoga System”, and so forth. And he claims copyright not only for his books and videos (where copyright is anyway automatic), but also for his “dialogue”—ie, what is in fact the teacher's monologue in a Bikram class—and for the 26-pose sequence itself.

At first, this intellectual-property strategy seemed to be just another of Bikram's wry jokes. Nothing of the sort had ever been attempted before. The closest precedent was an attempt in 2000 by a teacher of Pilates—a popular fitness method invented in 1914 by a German prisoner-of-war, Joseph Pilates—to enforce the trademark “Pilates” against another studio that used the name. The judge rejected that claim, ruling that Pilates had become a generic name, and thus not one entitled to protection.

Undaunted, in 2002 Bikram ordered his lawyers to start sending out “cease-and-desist” letters to Bikram studios, demanding that the owners stop infringing on his alleged property and start paying him money. Last year, Bikram made an example and sued one studio south of Los Angeles. That suit ended last June with a private settlement, but Bikram claimed a big victory on his website and ratcheted up his threats to all the other “impostors” out there. Suddenly, Bikram teachers everywhere, most of whom run small “mom-and-pop” businesses that make an unglamorous living, got scared.

A number of them responded by banding together in an alliance called—echoing the software battle of Linux against nasty Microsoft—Open Source Yoga Unity (OSYU) and hired their own lawyers. OSYU's stated purpose is to fight for the idea that “Yoga cannot be owned, transferred, franchised, trademarked or copyrighted.” In April, OSYU scored an initial victory against Bikram in a federal court in California, establishing its right to represent studio owners and preventing Bikram from going after them one by one before the legal concepts are clarified.

Bikram says that he is not, in fact, trying to franchise or copyright yoga as such, only his specific sequence of postures and way of teaching it. Thus he would admit that all the constituent parts of Bikram Yoga—the “asanas” (postures) and “pranayama” (breathing techniques)—have been in the public domain for about 5,000 years, since they were first painted on to caves and temple walls in India. But he argues that these asanas and pranayama are like musical notes or dance steps—public property to begin with, but private property once they form part of a song or ballet. Just as “Swan Lake” is no longer “Swan Lake” if you change its notes and steps, Bikram Yoga no longer delivers its health benefits, he claims, if you mess with his precise formula.

It should be said that, as with fast food, these alleged “health benefits” are themselves a matter of controversy. Some doctors, as well as many gourmet yogis, worry that the extreme and artificial heat in Bikram studios can lead to dehydration, over-stretching or worse. But put this debate aside for the moment, and give Bikram the benefit of the doubt.

Patently absurd

His problem now becomes one of legal logic. If Bikram Yoga is indeed, for legal purposes, akin to “Swan Lake”, Bikram might actually have a case. But Bikram himself does not claim that his classes are performances with inherent artistic or expressive value; instead, he boasts that their purpose is health. In legal jargon, that may make Bikram Yoga a “functional” process, which is an area covered by patent law, not copyright. Bikram has no patents and, even allowing for the eccentricities of America's Patent Office, no hope of getting any.

Bikram's licensing of his sequence, says Jim Harrison, a lawyer for OSYU, is thus less like selling the rights to a song and more like lecturing about the “Kama Sutra” and then trying to charge couples a fee every time they have sex in one of the positions. Or, returning to that fast-food metaphor, like Bikram writing a new recipe for hamburgers and then showing up at barbecues to charge the people flipping the burgers. Intellectual-property law is crucial to economic success. But extending it to yoga will—*The Economist*'s spiritually enlightened, physically limber journalists hope—prove too much of a stretch.

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Europe v America

Mirror, mirror on the wall

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America is widely admired as the beauty queen of the economic world. But the euro area's figures are more shapely than its reputation suggests

AS AMERICA'S economy has bounced back, the economies of the euro area still seem to be crawling along. This perception has reinforced pervasive gloom about continental Europe's economic future. A great deal has been written about America's superior performance relative to the euro area. But wait a minute: the widely held belief that the euro area economies have persistently lagged America's is simply not supported by the facts.

America's GDP surged by 5% in the year to the first quarter, while the euro area grew by only 1.3%. Europe's GDP growth has consistently fallen behind America's over the past decade: in the ten years to 2003 America's annual growth averaged 3.3%, compared with 2.1% in the euro area. Yet GDP figures exaggerate America's relative performance, because its population is growing much faster. GDP per person (the single best measure of economic performance) grew at an average annual rate of 2.1% in America, against 1.8% in the euro area—a far more modest gap.

Furthermore, all of that underperformance can be explained by a single country, Germany, whose economy has struggled since German reunification in 1990. Strip out Germany, and the euro area's annual growth in GDP per person rises to 2.1%, exactly the same as America's. Germany does represent around one-third of euro-area GDP, but still the fact is that economic statistics for the 11 countries that make up the other two-thirds look surprisingly like America's (see chart 1). (Were Britain part of the euro area, this effect would be even more striking.)

The most popular myth is that America's labour-productivity growth has outstripped that in the euro area by a wide margin. America's productivity has indeed quickened in recent years, but the difference between productivity growth in America and the euro area is exaggerated by misleading, incomparable figures. In America the most commonly used measure of productivity is output per hour in the non-farm business sector. This grew by an annual average of 2.6% over the ten years to 2003. For the euro area, the European Central Bank publishes figures for GDP per worker for the whole

economy. This shows a growth rate for the period of only 1.5%. But unlike the American numbers, this figure includes the public sector, where productivity growth is always slower, and it does not adjust for the decline in average hours worked.

Using instead GDP per hour worked across the whole economy, American productivity has risen by an annual average of 2.0% since 1994, a bit faster than the euro area's 1.7% growth rate. However, a study* by Kevin Daly, an economist at Goldman Sachs, finds that, after adjusting for differences in their economic cycles, trend productivity growth in the euro area has been slightly faster than that in America over the past ten years. Since 1996 productivity growth in the euro area has been slower than America's. But it seems fairer to take a full ten years.

But has not America combined rapid productivity growth with strong jobs growth, whereas continental Europe's productivity growth has been at the expense of jobs? This may have been true once, but no longer is. Over the past decade, total employment has expanded by 1.3% a year in America against 1% in the euro area. Again, excluding Germany, jobs in the rest of the euro area grew at exactly the same pace as in America. And since 1997 more jobs have been created in the euro area as a whole: total employment has risen by 8%, compared with 6% in America.

It is true that, during the past decade, productivity growth has accelerated in America, but slowed in the euro area. Alan Greenspan, chairman of America's Federal Reserve, blames Europe's rigid labour and product markets. Structural barriers to laying off workers or to new methods of work may have prevented firms from making the best use of IT equipment.

However, there is another, less worrying reason why productivity growth has slowed in continental Europe. Reforms to make labour markets more flexible have deliberately made GDP growth more job-intensive. Firms now have more incentive to hire new workers, thanks to lower labour taxes for low-paid workers and a loosening of rules on hiring part-time and temporary workers, which allow firms to get around strict job-protection laws. The flipside is slower productivity growth for a period, as more unskilled and inexperienced workers enter the workforce. This is exactly what happened in America in the 1980s. In the longer term, more flexible labour markets should help to boost growth.

Another popular misconception is that the return on capital is much lower in the euro area than in America, because European business is inefficient and hobbled by high wage costs and red tape. This argument is often given in defence of America's large current-account deficit. America's higher return on capital, it is argued, attracts a net inflow of foreign money, so it has to run a current-account deficit. But according to calculations by Goldman Sachs, the return on capital in the euro area has actually been roughly the same as in America in recent years. The total return on equities over the past decade has also been broadly the same—which is what you would expect given their similar pace of productivity growth.

Nonsense in, nonsense out

So far we have established that, based on official statistics, productivity growth over the past decade has been virtually the same in the euro area as in America, and although GDP per person has grown a bit slower, the gap is modest. However, using official statistics can be like comparing apples with pears, because of differences in the way that GDP is measured in different countries. For example, American statisticians count firms' spending on computer software as investment, so it contributes to GDP. In Europe it is generally counted as a current expense and so is excluded from final output. As a result, the surge in software spending has inflated America's growth relative to Europe's.

A second important difference is the price deflator used to convert growth in nominal spending on information technology equipment into real terms. In America, if a computer costs the same as two years ago, but is twice as powerful, then this is counted as a 50% fall in price. Though logical, this is nevertheless a contentious issue among economists. Most euro area countries do not allow fully for improvements in computer “quality”, so again official figures probably understate Europe's growth (in both GDP and productivity) relative to America. This reinforces the argument that the euro area has not been doing that badly.

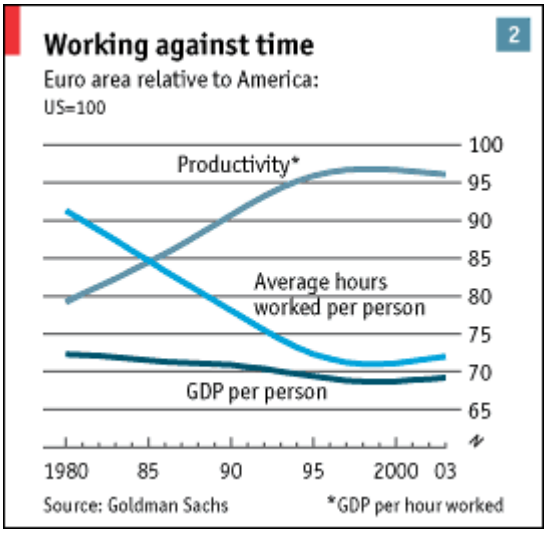
Despite such statistical quibbles, however, it is undeniable that the average person in the euro area is still about 30% poorer (in terms of GDP per person measured at purchasing-power parity) than the average American, and this gap has barely changed over the past 30 years. Thus even if income per person is growing at almost the same pace as in America, Europeans are still stuck with much lower

living standards than Americans.

Olivier Blanchard, an economist at the Massachussetts Institute of Technology, offers a more optimistic view†. The main reason why the income gap has not narrowed, he argues, is that over time Europeans have used some of the increase in their productivity to expand their leisure rather than their incomes. Americans, by contrast, continue to toil long hours for more income. Who is really better off?

In fact, Europe's GDP per person is no longer lower than America's because its economies are much less productive. Average GDP per hour worked in the euro area is now only 5% below that in America; 30 years ago it was about 30% lower. GDP per hour in Germany and France now exceeds that in America. Income per person is higher in America largely because the average person there works more hours. In the euro area, fewer people work and those who do hold a job work shorter average hours. By one estimate the average American worker clocks up 40% more hours during his life time than the average person in Germany, France or Italy.

The narrowing of the productivity gap between America and the euro area over the past 30 years has not been reflected in a catch-up in the euro area's GDP per person because hours worked have fallen sharply. Compare France with America. Between 1970 and 2000 America's GDP per hour worked rose by 38% and average hours worked per person rose by 26%, so GDP per person increased by 64%. French GDP per hour rose by a more impressive 83%, but hours worked per person fell 23%, so GDP per person only increased by 60%. Chart 2 shows for the whole of the euro zone how its improvement in productivity relative to America has also been fully offset by a fall in hours worked.



If leisure is a normal good, then it is surely appropriate that demand for it increases in line with income. A broader analysis of living standards based on economic welfare rather than GDP should place some value on longer leisure time. The tricky question is whether the decrease in hours worked is due to employees' preference to take more leisure rather than more income, or due to distortions from maximum working hours, forced early retirement or high taxes.

Lovely leisure

Mr Blanchard's analysis finds that most of the fall in hours worked in Europe has been due to a decline in average hours per worker (thanks to longer holidays or shorter working weeks), rather than a rise in unemployment or a fall in the proportion of the population seeking work. Furthermore, most of the reduction in average hours worked was due to full-time workers putting in shorter hours, not because of an increase in part-time workers who might not have been able to get full-time jobs. Mr Blanchard concludes that the fall in hours worked is mostly voluntary.

But that does not settle the matter. Perhaps Europeans choose to work fewer hours because of high taxes. Marginal tax rates have indeed risen by more in Europe than in America over the past 30 years. Taxes reduce the incentive to work an extra hour rather than go home, once a reasonable standard of living has been reached.

This is a hotly debated issue. A study** by Edward Prescott, an economist at the Federal Reserve Bank of Minneapolis, claims that virtually all of the fall in hours worked in the euro area can be blamed on higher taxes. But the flaw in this theory, says Mr Blanchard, is that within Europe there is little correlation between the fall in hours worked and the increase in taxes. Ireland has seen a 25% fall in average hours worked since 1970, despite an even smaller increase in tax rates than in America. Other studies have found that taxes have played a more modest role, accounting for about one-third of the fall in hours worked per person.

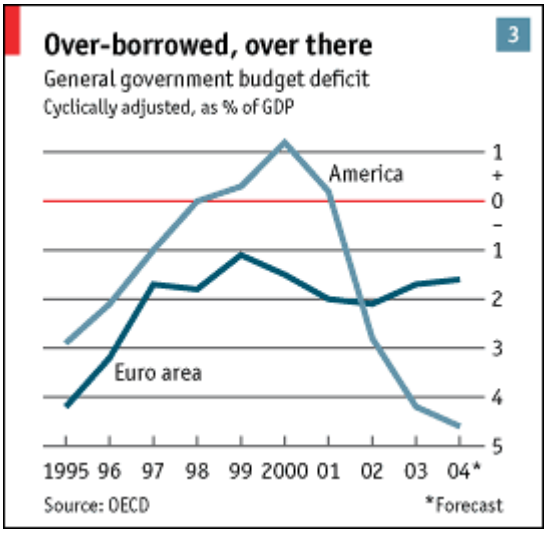
Mr Blanchard concludes that most, but not all, of the fall in hours worked over the past 30 years is due to a preference for more leisure as incomes have increased. Europeans simply enjoy leisure more. Americans seem more obsessed with keeping up with the Jones's in terms of their consumption of material goods. As a result, they may work too hard and consume too little leisure. Their GDP figures

look good, but perhaps at a cost to their overall economic welfare.

Robert Gordon‡, an economist at Northwestern University, agrees that GDP comparisons overstate America's living standards, but he goes even further. America has to spend more than Europe, he says, on both heating and air conditioning because of its more extreme climate. This boosts GDP, but does not enhance welfare. America's higher crime rate means that more of its GDP is spent on home and business security. The cost of keeping 2m people in prison, a far bigger percentage of its population than in Europe, boosts America's GDP, but not its welfare. The convenience of Europe's public transport also does not show up in GDP figures. Taking account of all these factors and adding in the value of extra leisure time, Mr Gordon reckons that Europe's living standards are now less than 10% behind America's.

Flexing the macro-muscles

But even if the euro area has not lagged far behind America, does not its pathetic growth over the past couple of years bode ill for the future? Surely America's stronger rebound since the global economic downturn in 2001 is proof of greater flexibility in its economy? In fact, both suggestions are questionable. The main explanation for America's more rapid recovery is that it has enjoyed the biggest monetary and fiscal stimulus in its history. Since 2000 America's structural budget deficit (after adjusting for the impact of the economic cycle) has increased by almost six percentage-points of GDP. Meanwhile, the euro area has had no net stimulus (see chart 3).



American interest rates were also cut by much more than those in the euro area. Without this boost, America's growth would have been much slower over the past three years. In other words, America's much faster growth of late may mainly be the result of looser (and unsustainable) fiscal and monetary policies, rather than greater flexibility.

While this might have been the right policy to support America's economy, it means that America's recent growth rate says little about its likely performance over the coming years. Indeed, the super-lax policies of the past few years have left behind large economic and financial imbalances that cast doubt on the sustainability of America's growth. From a position of surplus before 2000, the structural budget deficit (including state and local governments) now stands at almost 5% of GDP, three times as big as that in the euro area. America has a current-account deficit of 5% of GDP, while the euro area has a small surplus. American households now save less than 2% of their disposable income; the saving rate in the euro area stands at a comfortable 12%. Total household debt in America amounts to 84% of GDP, compared with only 50% in the euro zone.

America's recent rapid growth has been driven partly by a home-mortgage bubble. As interest rates fell and house prices rose, people took out bigger mortgages and spent the cash on a car or a new kitchen. House prices have also been lively in some euro-zone countries, with house prices rising at double-digit rates over the past year in France, Italy, Spain and Ireland. But in general, households have not borrowed to the hilt against those capital gains. Some European policymakers hope that America's bubble will soon burst and that Europe could then sprint ahead. That may be wishful thinking: a sharp slowdown in American consumer spending is also likely to dent Europe's growth rate. It is true, however, that the eurozone's consumer finances are in much better shape.

So, America's superior economic performance over the past decade is much exaggerated. Productivity has grown just as fast in the euro area; GDP per person has grown a bit slower, but mainly because Europeans have chosen to take more leisure rather than more income; European employment in recent years has grown even faster than in America; and America has created some serious imbalances which could yet trip the economy up badly.

“Bullish on America”

Indeed, one might say that the economic performance of the euro zone and America has not been hugely different over the past decade, but that American optimism has disguised this. European policymakers

are forever fretting aloud about structural rigidities, slow growth, excessive budget deficits and the looming pensions problem. In contrast, American policymakers love to boast about America's economic success while playing down the importance of its economic imbalances.

This does not mean that the euro area can be complacent. It still needs to push ahead with structural reforms. Its average jobless rate of 9%, against 5.6% in America, is too high. Contrary to the beliefs of many Americans, there has been labour- and product-market reform in continental Europe over the past decade, which is why employment has perked up. But unemployment remains a problem and, sadly, economic reforms now seem to have stalled in France and Germany.

The biggest snag, of course, is that because of its less favourable demographics, Europe has an older economy than America. With lower birth and immigration rates and an ageing population, Europe's labour force will soon start to shrink as a share of the population. That will make it harder for Europe to maintain its current pace of growth in GDP per person—and thus harder for governments to pay pension bills. Without faster growth, Europe will be unable to afford its welfare system.

If Europeans do not want to slip down the rankings of GDP per person in future, then they will need to work longer hours during their lifetimes. Alternatively, they may continue to attach more value to leisure and the quality of life, rather than hard cash. That is their choice. A truer picture of their economy might help them make it in an informed way.

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* “Euroland's secret success story”. Goldman Sachs Global Economics Paper No. 102, January 2004.

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** “Why do Americans work so much more than Europeans?” Federal Reserve Bank of Minneapolis Research Staff Report 321, November 2003.

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Global inflation

A ghost from the past

Jun 17th 2004
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Thought inflation was yesterday's problem? You may need to think again

ONCE again the spectre of inflation is haunting financial markets. Around the world, it has risen by more than expected this year. Rising bond yields suggest that investors fear worse to come. The yield on ten-year American Treasuries hit 4.8% this week, having dipped briefly to 3.1% a year ago. Have central banks underestimated the inflationary consequences of their unusually low interest rates?

A flurry of numbers in the past week has shown a widespread rise in inflation. America's 12-month rate of consumer-price inflation rose to 3.1% in May, up from 1.7% in February. Since the start of this year, prices have surged at an annual rate of 5.1%. In the euro area, inflation has jumped from 1.6% in February to 2.5% in May, well above the 2% ceiling of the European Central Bank's inflation target.

China's inflation rate has risen to 4.4%, up from less than 1% a year ago and its highest for seven years. Even in Japan, which has suffered six years of falling prices, there are clear signs that deflation is easing. Consumer-price inflation is still negative, but the corporate-goods price index rose by 1.1% in the year to May, its largest increase since 1997. Many economists now expect Japan's consumer-price inflation to turn positive by the end of the year.

Some of the increase in inflation is due to higher oil prices, although these have eased in the past two weeks. However, oil is only part of the problem. The prices of other raw materials and food have also shot up. *The Economist*'s commodity-price index has risen by 22% over the past 12 months. The euro area's core inflation rate (excluding energy, food and tobacco) has edged up slightly this year, to 1.8%. In America, core inflation has risen more steeply, from 1.1% in the year to December to 1.7% in May. During the past three months, it has been running at an annual rate of 3.3%. Goods prices that had been falling, such as those of cars, furniture and clothes, are picking up.

Households have spotted this trend. The University of Michigan's survey of households' expectation of inflation over the next 12 months has risen from 1.7% to 3.2% over the past year. Bond investors'

inflationary expectations, as measured by the gap between yields on conventional and index-linked Treasury bonds, have also risen in America and the euro area.

Until a few months ago, the conventional wisdom was that the world was awash with spare capacity, which would keep inflation in check. It now seems that America may have rather less slack than had been thought. The Federal Reserve's measure of capacity utilisation in manufacturing is still less than 78%, well below its long-run average. But many economists reckon that this currently overstates capacity because it fails to adjust for obsolete capital equipment and a faster pace of scrapping. Another measure, based on a survey of manufacturers by the Institute of Supply Management, suggests that firms are operating much closer to full capacity (see chart). Anecdotal reports confirm that firms are finding it easier to increase their prices in many industries, such as electronics, cars, steel and software.

In labour markets there is still little sign of overheating in most countries: wage claims remain muted. That said, in America productivity growth is slowing as employment picks up. So unit labour costs, which fell last year, are now rising again.

A popular measure of economic slack across the whole economy is the output gap, the difference between actual and potential GDP. Potential GDP is estimated by assuming that the economy had continued to grow at its trend rate. As a rule of thumb, when output is below potential (ie, the output gap is negative) inflation tends to fall; when output is above potential, inflation rises. According to the OECD, the euro area still has a negative output gap of more than 2% of GDP, suggesting that there is little risk of inflation taking off. Ironically, the European Central Bank seems to be more worried about inflation than other central banks. In America and Japan, by contrast, stronger growth has narrowed the output gap markedly. The OECD reckons that in both countries the negative gap has now been more or less eliminated. If so, it is not surprising that inflation is edging up—or, in Japan, that deflation is easing.

However, estimating output gaps is a tricky business because there is much uncertainty about the potential rate of growth. The OECD assumes that Japan's economy can manage 1.3% a year, its actual pace over the past decade, while America's potential growth rate is put at just over 3%. If the correct figures are higher, these economies have more slack.

Now you see it

Mismeasurement of the output gap was arguably to blame for the take-off in America's inflation in the 1970s. It is popularly argued that the sharp rise in inflation could have been avoided if only central banks had been using modern monetary-policy frameworks, which aim at price stability. However, work by Athanasios Orphanides, an economist at the Federal Reserve, suggests that the real trouble was that policymakers misperceived the size of the output gap. Official estimates of potential output at the time failed to spot that productivity growth had slowed, so the amount of slack was grossly overstated. In 1973 the output gap was estimated at minus 3%, implying little reason to worry about inflation. With the benefit of hindsight and data revisions, it is now thought to have been plus 4%, suggesting a big build-up of inflationary pressure. There is no guarantee that a similar mistake will not be made again.

This time, western policymakers will also have to take into account the growing importance of China in the world economy. Despite the latest rise in the country's inflation rate, other figures suggest that its economy is now slowing sharply. The 12-month rate of increase in fixed investment has slowed from 50% in January to 18% in May. Economists at J.P. Morgan estimate that China's GDP actually fell slightly in the second quarter on a seasonally adjusted basis, although the reported year-on-year growth rate will still be strong, because output also slumped in the second quarter of 2003 as a result of SARS. A slowdown in China would help to cool global commodity prices. Last year China accounted for around 30% of the global increase in demand for oil and 90% of the additional demand for steel.

Regardless of the exact size of the global output gap, recent growth rates suggest that it is narrowing fast. And that is hardly surprising given that monetary policies have been extraordinarily loose. Average nominal short-term interest rates are at their lowest in recorded history, and average real interest rates

are at their lowest since the 1970s. In America, the difference between short-term interest rates (1%) and nominal GDP growth (7%), a good measure of the degree of monetary stimulus, is wider than it has been since the early 1970s, when inflation took off. The Fed's stance today is much looser than when it last started to tighten, in 1994. Real interest rates were then around zero; today they are negative. In theory, America's central bank should be more eager today to tighten policy than it was then.

America's easy-money policy has spilled over into other countries. Low American interest rates have resulted in large inflows of capital into emerging economies, especially Asia, as investors seek higher returns. But because most Asian countries have tried to prevent their currencies appreciating, through purchases of dollars on a grand scale, their domestic liquidity has exploded.

Stephen Cecchetti, an economist at Brandeis University, in Massachusetts, and a former director of research at the Federal Reserve Bank of New York, worries about what the recent rise in American inflation means for monetary policy. The problem is that interest-rate changes take up to two years to have their full effect on inflation. And while interest rates remain below their long-run equilibrium of 4-5%, inflation will continue to increase. Since the Fed's current policy seems unlikely to return interest rates to that level before late 2005, inflation could keep rising for another three years. Mr Greenspan, however, said this week that he was not worried about higher inflation.

The question we should be asking, says Mr Cecchetti, is not whether the Fed will raise interest rates by a quarter- or a half-point at its next meeting on June 30th. It is how high rates will have to go in 2006 in order to bring inflation back below 3%.

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Japanese bonds

Higher rates, and a good thing too

Jun 17th 2004 | TOKYO
From The Economist print edition

When rising bond yields are great news

Get article background

"STRATOSPHERIC" is scarcely the right word to describe them, but yields on Japanese government bonds have tripled, to heights not seen in three-and-a-half years. On June 17th the yield on ten-year bonds reached 1.9%, up from only 1.45% a month ago. In June last year it was a measly 0.43%, the lowest ever recorded for a government bond (see chart).

In most countries a tumbling bond market (prices and yields are inversely related) would be something to worry about. And Japan is no exception. Banks' and insurers' portfolios are stuffed with government bonds; the value of these portfolios shrinks as the market falls. Higher borrowing costs for the government mean higher interest rates for private borrowers too, so there is some risk that Japan's recent strong economic recovery could be dampened, or even choked off, if the bond market falls too far.

Nevertheless, rising bond yields are on the whole a welcome sign, given Japan's dismal economic performance over the past 14 years. Japan's ultra-low bond yields have been a product of both deflation and the authorities' seeming inability or unwillingness to do anything about it. Now the bond market has apparently become convinced that this latest recovery is more sustainable than the previous two.

In particular, the fall in the bond market is at the least a sign of tentative confidence that the worst really is over and that the authorities are not about to ruin things. Rising bond yields suggest that investors expect inflation to rise—or, in Japan, to re-emerge. Until its current governor, Toshihiko Fukui, took office last year, the Bank of Japan (BOJ) had looked defeatist in the face of deflation. Now it seems to be on the right lines.

Mr Fukui has said time and again that the BOJ will stand by its loose policy of "quantitative easing" until prices have stopped falling for a while. That said, the central bank is a long way from being out of the woods. It has no clear framework for setting policy once deflation does come to an end. One good idea, for instance, would be to set a target rate for inflation.

Meanwhile, Mr Fukui, like central bankers everywhere, has to choose his words carefully. He must reassure investors that the BOJ truly has shaken off its past and will not tighten too soon. After the BOJ's policy meeting this week, he noted that the bond market was becoming more optimistic about the economy. At the same time, though, he argued that the recent increase in yields "gives the impression of being a bit steep" and gave warning of "the risk of speculation in the market". He thus seems aware of the harm a bond-market rout could do to bondholders and borrowers, and hence to the economy.

The central bank's difficulties notwithstanding, the prospects of an end to deflation are good. Corporate-goods prices have already begun rising. The gap between supply and demand continues to shrink. Private forecasters expect nominal GDP to grow by more than 1% in the year to next March.

Nor should falling bond prices be treated as entirely bad news for Japan's bond-holding financial institutions. Yields are rising partly on hopes that one still-declining measure of economic activity—bank

lending—will soon pick up as well. John Richards, a bond strategist at Barclays Capital in Tokyo, reckons that banks have cut back on their long-term bond purchases, because they expect to lend more. And rising bond yields push up discount rates and hence reduce the liabilities of Japan's beleaguered insurers.

Bond yields probably have further to rise: even by Japanese standards they are still low, and the economy is picking up. The central bank used to publish the results of its own model of the “correct” level of long-term interest rates, based on inflation, output, short-term interest rates and so forth. The BOJ no longer does so, but analysts at Credit Suisse First Boston estimate that the model implies yields of 2%, a bit higher than now. Mr Fukui should keep his foot on the accelerator.

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South Africa's economy

Oops, I did it again

Jun 17th 2004 | JOHANNESBURG
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The bean-counters find more beans

ONCE is unlucky: twice looks careless. Last June Statistics South Africa, the government agency that puts out the country's official economic data, admitted it had greatly overstated inflation for several months because of a glitch in measuring rents. The figures were revised and inflation, which was dropping anyway, is now comfortably inside its target range of 3-6%. Still, the error had probably caused interest rates to be kept too high for too long. Now the official statisticians are in trouble once more, this time for misjudging the size of the economy.

On June 11th the finance minister, Trevor Manuel, told parliament that GDP "is currently understated, and economic growth has been somewhat faster than the official numbers indicate." The reason is that official surveys of business activity are out of date and the weighting given to growth in some sectors is wrong. Services, now roughly two-thirds of the economy, are especially neglected by statisticians, perhaps because it is harder to count the output of an IT specialist, say, than that of a gold-miner. When rejigged numbers for the past six years are published in November South Africans will find their economy rather bigger than they thought.

How much bigger? Iraj Abedian, a Johannesburg economist, points out that South Africans' spending has been increasing much faster than the measured GDP growth rate (of 1.9%, year on year, in the first quarter of 2004; and less than 3% a year, on average, in the past decade). Yet South Africans' debt-to-income ratio has not risen. That suggests much growth has been missed. So does a new way of measuring manufacturing, which found the sector to be over 15% bigger than previously thought. Mr Abedian guesses the whole economy might be as much as a fifth larger than official numbers say.

That is welcome if true. But getting the figures wrong in the first place has been costly. Some foreign investors, who frequently cite concern about weak growth, may have been deterred by the low reported rates. And higher growth—real, not just recorded—is exactly what the country needs. Increased public spending on roads, ports and railways, the building of big sports stadiums (for the football World Cup in 2010) and new public works should lift the figures in the future. But, one wonders, what statistical botch-up will be revealed next June?

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Britain's institutional investors

Trust or bust?

Jun 17th 2004
From The Economist print edition

How to make big investors responsible

ONE thing is clear about investing savings: people are going to need to do more of it than ever before. But for the ordinary Joe, investing is an inscrutable business, fraught with gobbledegook and the potential for unexpected losses. Often, the only winners seem to be financial-services companies and investment institutions.

How to protect investors better? In Britain—which has the world's largest institutional-investment industry after the United States—a whole succession of committees have reported on the subject in the past few years. Now a committee set up by Tomorrow's Company, a business-led think-tank, and chaired by Sir Richard Sykes, ex-chairman of GlaxoSmithKline, has just produced what Sir Richard calls a “report to end all reports”.

Is it? The key problem identified by the committee is a loss of investor trust in the financial-services industry, brought about by a series of scandals and by the collapse of the stockmarket. The key solutions are better self-regulation, based on an agreed statement of principles drawn up by and delivered through an industry-wide forum in which reputable companies would take part; and greater transparency of fees and incentives. Big institutional investors would get together to exert pressure on under-performing companies, thus increasing their effectiveness. And investors would publish their voting records and disclose all fees and charges.

Most of these points are sensible. More disclosure is desirable, and many City folk think that the publication of voting decisions is a matter of time. The report could have paid more attention to improving things for retail investors—its top recommendation is the lame one of compulsory lessons on basic finance for schoolchildren. Yet in retail finance, as in institutional investment, the pattern of incentive payments and commissions can cause serious distortions and harm to the customer.

However, the real issue lies in the prospects for better self-regulation. The report differs from most others in its insistence that the industry is capable of restoring trust by its own efforts. Indeed, this is urgent, argues Sir Richard, because “the industry will get more regulated unless it changes its ways.” Whether that happens is now up to the industry. Promisingly, several committee members come from institutional investment, including the chief executives of the Man Group and of Hermes. (Another committee member is the business editor of *The Economist*.)

Reports, reports

But one big trade body, the Association of British Insurers, refused to take part. Peter Montagnon, the association's head of investment affairs, says that lots of government-sponsored reports are already examining these issues: why devote scarce staff time to a privately sponsored exercise? And Lindsay Tomlinson, chairman of another, the Investment Management Association, is also hesitant.

Sir Richard says Mr Tomlinson “could well take a lead”. Mr Tomlinson, however, argues that his trade association has already done some of the things the committee recommends, such as drawing up principles and codes of conduct, and does not have the power to do others, notably kicking out any member who does not play by the agreed rules. “I don't think the forum can be made to work,” he says. He is sceptical about the success of voluntary restraint that the alcohol and insurance industries have both attempted to pursue. And he worries that the forum could become a club of big firms, setting arbitrary rules that discriminate against others.

So government regulation may come anyway. If so, that will diminish the impact of what is, in part, a blueprint for self-help. Regulation of a conventional sort may not restore trust, of course: indeed it may, as Mr Tomlinson says, accelerate the divide between heavily regulated public companies and lightly regulated hedge funds and private equity markets. But in that case, private investors might see more clearly what risks they were taking, and might even grasp the basic rule of safe saving: never put your money into anything you do not understand.

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European insurance

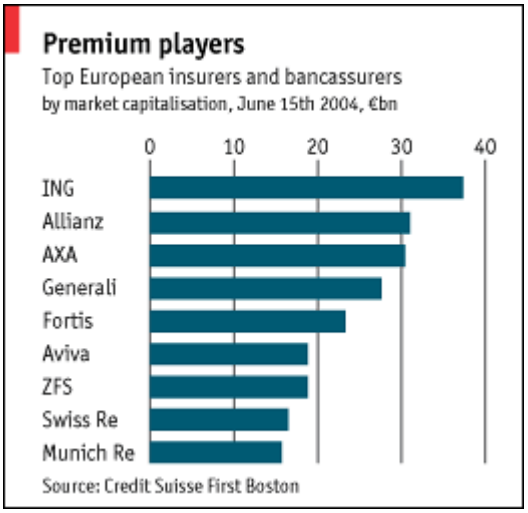
Italian tortoise, French hare

Jun 17th 2004 | PARIS
From The Economist print edition

AXA and Generali will be the main players in insurance consolidation in Europe

HENRI DE CASTRIES, chief executive of AXA, France's biggest insurer and one of the largest in Europe, is in an upbeat mood. AXA has weathered the recent crisis in insurance without having to ask its shareholders for new capital. It recently completed the takeover of MONY, an American life insurer, after some protracted wrangling with MONY's shareholders, who had gone to court arguing that the French offer was too low. Business in both life and non-life insurance is improving. However, Mr de Castries is not one to sit still for long. "If the price is right we will buy companies," he says, even if AXA then has to spend money on turning its acquisitions around, as it has in the past.

Despite a wave of mergers in the 1990s, the advent of the euro and a lot of talk about a single market, Europe's insurance industry remains largely a domestic business. In any further consolidation, AXA ought to play a leading role, along with Italy's Generali, which is also in good shape. Germany's Allianz, a bigger rival, has had an unusually difficult couple of years, as it has digested Dresdner Bank, a struggling institution it bought in 2001.



AXA has a record of bold takeovers—of America's Equitable in 1991, of Union des Assurances de Paris, the French market leader, in 1996, and of Britain's Guardian Royal Exchange in 1999. It has tended to buy troubled companies with powerful distribution franchises cheaply and restore them to health within a few years.

The company has also cut costs, by a total of €1.3 billion in 2002 and 2003. About 2,000 back-office jobs were moved to India. Spending on technology, advertising and outside advice was cut. Bosses of local subsidiaries were obliged to join in. "In our family, we are used to dealing with feudalism," says Mr de Castries, who descends from old military stock.

In France AXA is number two in life insurance and the market leader in property and casualty cover. In America it hopes to build on Equitable's success with MONY. However, its position in too many other countries is weak. Mr de Castries admits that AXA is having difficulties in Germany, where it is sixth in life insurance and third in non-life, and in Britain, although business there is slowly improving, with life insurance making a bit of money. In southern Europe its presence is still tiny. It has only 1% of life premiums in Italy, Europe's fastest-growing insurance market, 2.7% in Portugal and 3.4% in Spain. "We are looking for additional distribution or similar product range," says Mr de Castries.

Generali, the other possible big shopper, has a stronger balance sheet than AXA but lacks the French company's history of successful acquisitions. Apart from a failed attempt to buy Assurances Générales de France in 1999, Generali mostly stood by during Europe's previous consolidation wave. Its management's hands were tied by powerful minority shareholders, especially Mediobanca, a Milan investment bank. Because shareholders did not want their stock diluted, Generali could not finance purchases by issuing new shares. "Generali missed an excellent opportunity during the recent bear market to make acquisitions and to raise capital," say insurance analysts at J.P. Morgan.

It is now better placed to buy. Shareholders interfere less than in the past. Generali has a war chest of several billion euros, even without having raised new capital. It says it will continue largely to ignore Britain, where it thinks returns are too thin, as well as America and Japan, and instead focus on

Germany, Italy, Spain, France and central Europe. Its officials argue that insurers in foreign markets should either be very strong or get out, because of the importance of economies of scale.

AXA and Generali are bound to hoover up smaller companies in their main markets, but what might they buy abroad? Britain's Standard Life is on sale, but Mr de Castries is not interested in the troubled mutual, and Generali is not interested in Britain at all. On the other hand, Prudential, a British life insurer, would fit well into AXA's existing operations as well as bulking up its presence in Britain. Winterthur, a subsidiary of Credit Suisse, might also be sold soon, although its boss, Leonhard Fischer, denies it.

However, the creation of a true pan-European giant, involving two or all of AXA, Generali and Allianz, is highly improbable. Yet AXA and Generali would make a good geographical fit. AXA could compensate for Generali's weakness in France and America and Generali make up for AXA's tiny share in southern and central Europe. Each would strengthen the other's asset-management arm. Such a union might, one day, even rival America's AIG, the world's biggest insurer.

Never shy of bold moves, AXA is keener than Generali on the idea of a merger, but both agree it is academic. The two firms are iconic businesses in their respective countries. France is even more protective of its national champions than Italy, but Generali is Italy's only financial company of real scale. Although he is French, Antoine Bernheim, Generali's chairman, wants to keep his firm in Italian hands. When continental Europeans built up AXA, Generali and Allianz, they all hoped their insurer would become Europe's champion. Yet for the foreseeable future, it seems likely that each will dominate only at home; none will rule the whole continent.

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Insurers in Bermuda

The trouble with islands

Jun 17th 2004 | HAMILTON
From The Economist print edition

Even in paradise, space and talent are limited

AP

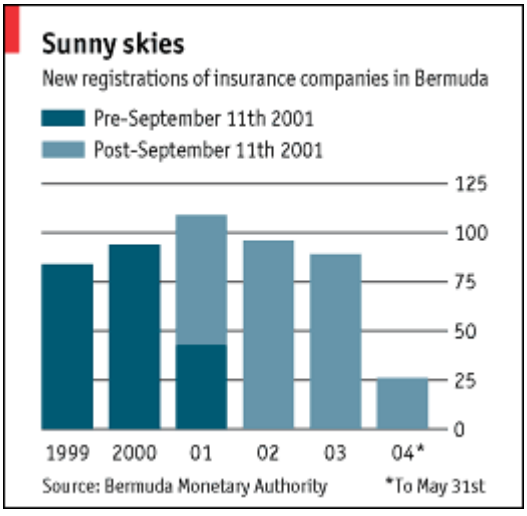
Short supply

IN BETWEEN wine-and-cheese sessions and games of golf, executives at last week's World Insurance Forum heaped praise on their host, Bermuda, for its friendliness to their industry. Lots of big insurers have headquarters or offices here. One batch arrived in 1985; more started up to take advantage of rising property-catastrophe premiums following Hurricane Andrew in 1992, and more still incorporated after the September 11th attacks. John Kerry, America's Democratic presidential candidate, has pilloried the heads of such offshore companies as “Benedict Arnolds” for avoiding taxes on the mainland.

Mr Kerry needn't fear: the boom may be ending anyway. The island, just 21 square miles, is simply too small to handle another post-disaster wave of insurers. The downtown of Hamilton, the capital, is already packed with gleaming new buildings such as those belonging to ACE and XL Capital, two of Bermuda's insurance giants. Office space is ever dearer—top properties go for up to $70 a square foot, a quarter more than the average in midtown Manhattan. Skyscrapers are not an option, because no building is allowed to be taller than the eaves of the Anglican cathedral. Local companies, priced out of the market, are starting to decamp to cheaper spots, such as the island's old American and British military bases.

The trend is even truer of housing. Rents have soared, to $1,800 a month for a one-bedroom apartment. The influx of expatriates with whopping expense accounts is driving locals out of Hamilton and away from some of the choicer seaside spots. Landlords are doing a bustling business, and condominiums have been built at a great rate. All this has taken a toll on the island's infrastructure. Despite Bermuda's one-car-per-household rule, traffic along the one-lane roads is dreadful even before schools finish for the day. Private schools all have waiting lists.

So Bermuda is becoming a difficult place to live, not only for locals but also for foreigners. Already most of those see Bermuda as a short-term proposition—a good thing, because immigration authorities have taken to booting out work-permit holders after six years (marrying a local won't help unless you stay together for at least ten years). The strains are starting to show: chief executives say that they need more actuaries and other professionals, as there are not enough skilled islanders to fill the gap.



So what is to be done? Some big companies, such as ACE and the Bank of Bermuda, owned by Britain's HSBC bank, are encouraging young Bermudians (who are cheaper to employ than foreigners) to become interns during university summer holidays. As for the space and traffic worries, David Ezekiel, head of the Association of Bermuda International Companies, thinks companies could squeeze a bit more room out of Hamilton, especially if government offices consolidate. Some of Bermuda's well-capitalised insurers might merge. More underground car parks, thinks Mr Ezekiel, would help save space.

If Bermuda cannot cope, plenty of rivals will be eager to absorb the business. Reinsurers, Bermuda's speciality, would probably not move back to London, but they might choose to expand in, say, Dublin rather than Bermuda. Already plenty of captive insurers—small companies formed to provide insurance for their parent firm, essentially a form of corporate self-insurance—have set up in the Cayman Islands (where the traffic is also bad) and the American state of Vermont, which last year licensed 77 captives, its most ever. Beaches and golf are not everything.

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About sponsorship

Economics focus

In the shadows

Jun 17th 2004
From The Economist print edition

The informal economy is neither small nor benign

HAVE you ever paid cash to a builder for the odd home improvement? Or perhaps bought fruit from a street vendor who lacked the required hygiene certificate? Maybe you have employed a maid or a nanny, and have never got round to filing all that paperwork for social security?

If so, then depending on your local laws you may have been participating in what economists call the “informal” or “grey” economy. In essence, the grey economy consists of legal activities whose participants fail to pay tax or comply with regulations. The informal (or “underground” or “parallel” economy) is often taken to mean something broader, including illegal activities such as prostitution and drug dealing as well, although there is no agreed strict definition.

The grey economy is often thought of as something found at the margins of poor countries, such as a hawker stand in Thailand or a roadside vendor in Ghana. But that is misleading. Although it represents a greater share of total output in poor countries, it exists in rich and poor places alike. Recent research suggests that the grey economy is growing. Moreover, a new study suggests that it may be slowing the overall economic growth of developing countries.

Measuring the invisible

By its very nature, the informal economy's size in any country is hard to observe. In a paper published a couple of years ago*, Friedrich Schneider, of the Johannes Kepler University of Linz, exhaustively examined the ways of estimating it. There are two basic approaches. The first is direct: you could ask people whether they dodge taxes, or look at the results of spot tax-audits. However, people are unlikely to confess to breaking the law, and tax inspectors do not usually check on a random sample of the population. So the second method, indirect detective-work, is better. For example, you might compare data on cash transactions or electricity consumption with official output figures. If the use of cash or electricity is growing much faster than the measured economy, this might indicate that the informal share of total activity is rising.

Using such techniques, Mr Schneider estimated that the informal economy in developing countries in 2000 was equivalent to 41% of their official GDP. In Zimbabwe, the figure was 60%. In Brazil and Turkey, around half of non-farm workers are in the informal sector. In OECD countries the share of the informal economy was lower, but far from negligible, at 18%.

There is little mystery about why the informal economy exists. There are a lot of advantages to operating in the shadows. For a start, there are no income taxes to pay. Avoiding social-security charges, which often drive a chunky wedge between take-home pay and employers' wage bills, can both cut labour costs and thicken wage packets. People can also save a fair bit by ignoring safety, environmental and health rules, not to mention intellectual property rights.

Indeed, in cross-country comparisons, the more expensive and more complicated are taxes and regulations, the bigger is the informal economy as a share of GDP. That explains why, among rich countries, Spain, Greece, Italy and Belgium have some of the largest grey economies and why America, Canada and Switzerland have much smaller ones. In recent years, the growth in the grey market in some poor countries may owe a lot to the International Monetary Fund's austerity programmes, which increase taxes and thus encourage many entrepreneurs to opt out.

A booming grey economy sounds like good news, if only because many of the officially jobless are in fact earning a living. So if the poorest are winning, who loses?

The entire economy does, according to a new study† by Diana Farrell of the McKinsey Global Institute, research arm of the consulting firm. The price for having a large grey economy can be much lower productivity. Grey firms tend to be small and want to stay that way lest they come to the attention of the authorities. However, their small scale limits their ability to make the most of new technology and business practices.

In Russia, for example, large supermarkets, which have no choice but to obey the tax inspectors, have a 5% cost advantage over small shops. But informal outlets can save 13% by staying in the shadows. In other words, the productivity benefits of greater scale are swamped by higher tax rates. As a result some industries, especially labour-intensive ones such as retailing, stay fragmented and inefficient.

Ms Farrell estimates that formalising the informal sector could add 0.8 percentage points to Portugal's productivity growth, and 1.5 percentage points in Turkey and Brazil. Brazil's construction industry, for example, would gain because it would have no need to employ lookouts to tell unregistered workers to scatter when government inspectors turn up.

Broadening the tax base, cutting rates and improving enforcement would help. Ms Farrell notes that, if the Turkish government managed to collect 90% of its value-added-tax revenues instead of the current 64%, it could lower the tax rate from 18% to 13% without sacrificing any income. She also points out that Brazil's government today spends 30% of the country's (official) GDP, a bit more than America's today, and vastly more than the 7% the Americans spent in 1913, when their real GDP per head was roughly the same as Brazil's today. Yet Brazil has only four tax enforcers for every 1m people. If tax rates remain high and the probability of detection low, grey activities will continue to have irresistible appeal.

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* "Size and Measurement of the Informal Economy in 110 Countries Around the World". World Bank Working Paper, July 2002.

† "The Hidden Dangers of the Informal Economy". *McKinsey Quarterly*, 2004, no 3.

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About sponsorship

Conservation

Peering at the future

Jun 17th 2004 | SOMEWHERE ON THE AMAZON, NEAR TEFÉ
From The Economist print edition

Ardea

Conservationists are, reluctantly, starting to get real

LIKE an aquatic version of Baba Yaga's hut, the Bill Hamilton Travelling Centre for Environmental and Scientific Education floats on a raft through the streams and backwaters of Amazonas state in Brazil, spreading its message to the inhabitants of what is still the world's largest rainforest. At the moment, it is moored outside Tefé, one of the state's oldest towns, and it has just played host to a meeting organised by the Wildlife Conservation Society (WCS) of New York.

The participants came from all six countries whose waters feed the Amazon. They gathered to do two things. One was to examine a nearby conservation area, the Mamirauá Sustainable Development Reserve, and consider what lessons its success held for their own efforts. The other was to ponder how they could make those efforts systematic. As the conference organiser, Andrew Taber, observed in a recent article in *Conservation Biology*, “Conservationists have not been successful at rigorously measuring conservation successes and in trumpeting them in a compelling way...We are going to have to learn very fast if conservation is going to be regarded by our societies as something other than a luxury good.”

Conservation biologists tend to be anarchists in muddy boots, and the idea of working to a clear and pre-ordained plan rather than their own gut instincts is anathema to many. But funding agencies are starting to wise up to the loose connections that often exist between inputs and outputs in conservation projects, where inputs are donated dollars, and outputs are species and habitats actually conserved. They would like to see that their bucks are delivering the appropriate bang. That means a radical change of attitude, both about what it is realistically possible to conserve, and how to go about conserving it. This is where Mamirauá comes in.

Managers in muddy boots?

The Mamirauá reserve, of 11,000km^2 (4,300 square miles) of rainforest, was set up a decade ago by José Márcio Ayres, a local WCS biologist. Its full title is significant, because Ayres, who died last year, had to have both it, and the legal category it refers to, specially created. Before Mamirauá, Brazilian law saw conservation and development as opposed. Protected areas were (at least in theory) off limits to economic activity. Everything else was fair game. Ayres changed that, and Mamirauá is now seen as an

almost unqualified success. The fact that it is known to be successful is because its organisers have been rigorous in measuring their outputs.

“Sustainable development” sounds contradictory. But if the question posed is “whose development?”, then sometimes the answer can make sense. In the case of Mamirauá, sense was made by focusing the benefits of development on local people, to the exclusion of outsiders. It also worked because a group of animals could be found for which the interests of the conservationists and the locals coincided: fish.

The area's residents have fished its lakes and streams for as long as they have been there. In the latter half of the 20th century, though, outsiders started muscling in. This gave Ayres his opening. Though his principal reason for wanting to conserve the place was to protect its white uakari monkeys (pictured above), that entailed protecting the whole ecosystem. Fish were the key. Although their numbers had been greatly depleted, making local people sympathetic to the general idea of conservation, many of the species in question were capable of rapid reproduction and growth once the pressure was off. To take that pressure off, Ayres did two things. He created a constitution for his new park that forbade outsiders from fishing in most of the lakes, and he allocated the fishing rights in individual lakes to individual villages. He thus reduced the number of fishermen and, at the same time, abolished the problem of the commons (the tendency of people to overuse resources that they do not have exclusive rights to) by creating what were, in effect, property rights in the fishery, albeit rights that were held collectively rather than individually, and that could not be traded.

The flip-side of this privilege was that the locals agreed to certain areas of forest being put off-limits to any exploitation. They also agreed to police the reserve, both against outsiders, and against rogues from within. Internal cheats are punished by receiving smaller or non-existent dividends from the ecotourism lodge that has been set up as part of the deal.

The results, as Ana Rita Alves, one of the reserve's managers, outlined to the meeting, are impressive. There has been a fourfold increase in the population of the pirarucu, an important commercial fish species, and a 25% increase in the average size of the fish landed (rigorous monitoring of catch sizes is part of the deal). Aquatic reptiles, such as terrapins and caimans, are also rising in numbers. The monkeys, though hard to count, seem to be holding their own. “Habitat conversion”—ecospeak for cutting down trees and planting crops—has fallen to zero as people are now being encouraged to re-plant cleared land, rather than felling more trees. Illegal logging (which is easily monitored, since the logs have to be floated out of the reserves as rafts) has also fallen, from 80,000 trees a year to 200. And, crucially, it is not only the welfare of the forest that has improved. Human welfare has, too. During the reserve's existence, average household income has risen by 107% (and that of fishermen by 300%), infant mortality has dropped by 54% and infestation by internal parasites by 27%—far better results than have been achieved in villages outside the reserve. The excluded outsiders aside, everybody is happy.

It remains to be seen how deployable this model will prove. The first real test, explained Ronis da Silveira, one of the people in charge of the project, will be in Piagaçu-Purus, a newly established reserve 300km (200 miles) south-east of Mamirauá. Again, the route to the locals' hearts planned by the conservationists is via fishing. But powerful interests are at stake. Piagaçu-Purus supplies about half the fish consumed in Manaus, a city of 1.5m people that is the capital of Amazonas. Much of this trade is run by outsiders. Obviously, the locals would be delighted to be given a Mamirauá-like monopoly over the trade. The outsiders, hardly surprisingly, are less than ecstatic. Several of them are also rich, with the political muscle that this brings, and also, in some cases, muscle of a more literal sort. Conservationists have been assassinated before in this part of the world. It could happen again.

Thinking anew

Reserves with less rapidly growing, but nevertheless valuable, animals face a more difficult task. In the Madidi national park in Bolivia, and the Yavari-Miri valley in Peru, for example, the valuable, threatened species in question are the white-lipped and collared peccaries. Peccary meat is an important foodstuff. Peccary skin is used to make fine leather gloves. In the case of Madidi, explained Robert Wallace, the WCS's representative at the park, much of the problem is knowing where to concentrate effort. He and his colleagues have therefore developed a so-called geographical information system to produce maps that combine habitat and threat information. This enables them to identify places within and around the park that will survive anyway, places that are already lost, and those where effort needs to be concentrated. As in the case of Mamirauá, establishing property rights is crucial. In this context Dr Wallace's mapping efforts are also helping the locals to claim land titles, which bring the legal right to exclude outside hunters.

In the case of Peru, the rule of law is better established. Here, Richard Bodmer and Pablo Puertas are helping people to improve their peccary-hunting methods (for example, by reducing the use of shotguns), so that the skins of hunted animals are not damaged. That makes them more valuable to glove-makers, and thus means legal quotas yield more revenue.

Both Mamirauá and Madidi have benefited from people thinking hard in advance about what they want to achieve, and involving locals at an early stage. David Wilkie, a conservation biologist at the WCS, took this a step further (and incidentally illustrated how far there is still to go) by introducing management-speak to the assembled conservationists, and outlining the ecological equivalent of a SWOT (strengths, weaknesses, opportunities and threats) analysis.

Dr Wilkie's acronym was GTTI—goals, targets, threats and interventions—and he took the meeting through a management-101 course of boxes and flow charts of cause and effect. Goals, he explained, were big, lofty visions, such as “preserve the biodiversity in such-and-such an area”. Targets were measurable results, such as raising the population density of a particular species to its carrying capacity in the environment. Threats were specific obstacles to doing so, for example habitat loss and pollution. Interventions were ways of addressing the threats.

Blindingly obvious, you might think. But there was still some squirming in the audience at this attempt to tie things down in an unambiguous way. And cases of GTTI being put into practice are depressingly thin on the ground. One clear-cut example that Dr Wilkie was able to give was from the Pastaza region of Ecuador, where the target was to restore the local fish population to something near carrying capacity. The threat was the use by local fishermen of pesticides and dynamite as their principal fish-catching tools. These are extremely destructive. The intervention was to revive the use of barbasco, a natural poison which the fishermen preferred, but which had fallen into disuse because local barbasco plants had been overexploited to the point of near extinction. The solution was to plant barbasco gardens. Simple. But until GTTI was applied, no one thought of it. Perhaps management systems do have their uses, after all.

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About sponsorship

Cognitive science

Simon says

Jun 17th 2004
From The Economist print edition

Bilingualism may protect the mind from deterioration in old age

AFP

Bilingual bright old things

IT IS certainly useful to be able to speak more than one language. But, according to a paper by Ellen Bialystok, of York University in Canada, and her colleagues, in this month's issue of *Psychology and Aging*, it is useful not just for the obvious reason that it makes it possible to talk to more people. Dr Bialystok found that “bilinguals”—individuals who grew up speaking two languages and continue to do so—performed significantly better on a variety of simple cognitive tasks than people who speak only one. Furthermore, the differences between the two groups increased with age, leading her to hypothesise that knowing and using two languages inhibits the mind's decline.

The tests she used rely on a phenomenon known as the Simon effect, in which cognitive clashes cause a person's reaction time to slow down. Dr Bialystok's Simon-effect task involved a computer that displayed either a red or a blue square on either the left-hand or the right-hand side of its screen. She asked her subjects to press the left “shift” key on the keyboard if the square was blue, and the right one if the square was red. The cognitive clash here is between the location of the square and that of the key. It takes longer to hit the left key if the blue square appears on the right-hand side than if it, too, appears on the left—and *mutatis mutandis* for the red square and the right key.

Initially, Dr Bialystok exposed her subjects to four trial runs, each consisting of a random sequence of 24 squares. Despite the fact that the two groups, bilingual and monoglot, had comparable socio-economic backgrounds and general intelligence scores, Dr Bialystok found that the bilinguals responded faster than the monoglots. That was true both when the squares were on the “correct” side of the screen, so to speak, and—even more so—when they were not.

Her first thought was that this might be because someone who speaks two languages is able to suppress the activity of parts of the brain—in particular, the part that speaks whichever language is not in use at a given moment. This, she speculated, might allow a bilingual individual to suppress information about the spatial position of a square and thus concentrate on the colour.

To test her hypothesis, she gave her subjects a second task. This involved four colours instead of two, but placed the squares squarely, as it were, in the centre of the screen. That made the task more complicated, but eliminated the Simon effect and thus any possible need for suppression.

The result was the same. Bilinguals did better than monoglots. This shows that the effect of bilingualism

on space-related reaction time must be caused by more than mere inhibition—though Dr Bialystok has no idea what. On the other hand, when the subjects were exposed to ten, rather than four, runs of squares, the performance of monoglots caught up with that of bilinguals in the last few sets. This, Dr Bialystok says, suggests that the advantages of bilingualism are reduced once a task has become so well learned that it can be performed automatically.

In all cases, however, the performance gap between monoglots and bilinguals increased with age—something that Dr Bialystok is not yet sure how to explain, but which suggests that bilingualism protects the mind against decline. It may never be possible to prove W.H. Auden's dictum that “time...worships language”. But, for the present, it seems that reaction times depend heavily on it.

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Quantum teleportation

In the twinkling of an ion

Jun 17th 2004
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Two groups have succeeded in teleporting quantum states in atoms

SOME ideas won't go away. Ever since the writers of Star Trek chose, as an economy measure, to have their characters beam down to the surfaces of planets using a cheap special-effects trick, rather than going to the expense of mocking up and filming a shuttle craft, scientists and sci-fi nuts have been fascinated by the idea of teleportation.

Pure fantasy, of course. But that does not stop people trying. Although no one has succeeded in teleporting so much as a single sub-atomic particle, some have managed to teleport the quantum states those particles are in. These states describe the exact characteristics of a particle, so in theory a body could be reconstructed particle by particle if enough quantum states were teleported.

Until now, the only particles this has been done for are photons, the particles of light. But two papers in this week's *Nature* describe how to do it for electrons, which are rather more substantial.

The electrons in question were in ions—electrically charged atoms. Rainer Blatt of the University of Innsbruck in Austria and his colleagues worked with calcium ions while David Wineland's team from America's National Institute of Standards and Technology in Boulder, Colorado used beryllium. Both groups relied on a phenomenon called quantum entanglement to do the teleporting. This involves two ions—call them A and B—being brought together and then moved apart. As long as no one examines either ion closely, the two retain a “memory” of each other. Introduce a third ion, C, to A, though, and then look at the system, and you will see that C's characteristics have been transferred to B, no matter how far C and A were from B when you looked. Beam me up, Scotty.

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Predicting the menopause

Egg timer

Jun 17th 2004
From The Economist print edition

Mathematics may help women to calibrate their biological clocks

Alamy

Is that the time already?

MANY women spend their childbearing years playing reproductive roulette, betting that their fertility will last until their careers are on track. But how long can they delay having children before it is too late? In rich countries the average woman goes through the menopause at the age of 50, but it is not unusual for it to happen as early as 42 or as late as 58. Some women, such as those who had cancer as children and were treated with chemotherapy, are at particular risk of an early menopause. Unfortunately, there is no way for a woman to know in advance exactly when her menopause will occur.

Hamish Wallace, a paediatric oncologist at the University of Edinburgh, and Thomas Kelsey, a computer scientist at the University of St Andrews, both in Scotland, may be able to help. In this month's issue of *Human Reproduction* they have published a mathematical model which tries to predict when a woman will enter the menopause by linking two separate sets of published observations.

The first observation is that the number of “primordial follicles”—the specialised bits of ovaries which actually yield the eggs—declines from an average of 700,000 at birth to roughly 1,000 when the menopause kicks in. The shape of the curve which describes this decline is governed by a well-known equation called the Faddy-Gosden model.

The second set of data is previously published research on the sizes of the ovaries of more than 14,000 women. “Transvaginal ultrasound”, though ghastly-sounding, is actually an easy way of measuring the size of an ovary. Studies using it show that, like follicle number, ovarian size falls with age. What Dr Wallace and Dr Kelsey have done is to correlate ovarian volume as measured by transvaginal ultrasound with follicle number as calculated using the Faddy-Gosden model. They have thus created a new mathematical model which allows them to work out whether a woman will experience her menopause early or late, based on her age and the size of her ovaries.

At the moment, the Wallace-Kelsey model is still an unproven hypothesis and it will take years, and measurements on many thousands of women, to discover whether its predictions match reality. If it does work, though, it will give those who want both a career and a family a powerful tool for balancing their lives.

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Men and horses

So near, and yet so far

Jun 17th 2004
From The Economist print edition

PA

Exploring a unique relationship between man and beast

NO ANIMAL appears in as many English sayings as the horse. There are gift horses, high horses and dead horses; there is horse sense and horseplay; there are horses for courses, and there are the led-to-water horses that won't drink. This linguistic heritage reflects the fact that throughout most of human history, right up until the advent of the car (or the “horseless carriage” as it was appropriately known at first) man's relationship with the horse was a particularly close one.

There were few moments outside the home that were not shared with horses. They provided man with transport (in both love and war) and they were indispensible partners down on the farm, when agriculture accounted for the vast majority of economic output. Even when not actually present, they were rarely far from man's consciousness. Throughout the 18th and 19th centuries, the streets of Europe's and America's fast-growing cities were littered with piles of steaming horse dung. The arrival of the horseless carriage was welcomed on many counts.

Although the industrialised world has largely dispensed with horses for daily work and transport, our history and culture are more bound to the horse than to any other animal. From the sarcophagus of Alexander the Great and the terracotta figurines of Xi'an in eastern China, to the pastoral scenes of Constable and Gainsborough, the horse has been an inspiration for great art. As John Jeremiah Sullivan writes in his eloquent tour of the history of men and horses: “A person today who knows horses, really knows them, understands more about what it meant in the past to be human than the most knowledgeable historian.”

Today, the horse lives only on the margins of human society. The sight of one in a field can be enough to rekindle atavistic affections that lie deep within. But for many, their relationship with the horse is limited to the racecourse, where a series of strange rituals (among them a display of hats at this week's famous

Blood Horses: Notes of a Sportswriter's Son
By John Jeremiah Sullivan

Farrar, Straus and Giroux; 272 pages; $24

Buy it at
Amazon.com
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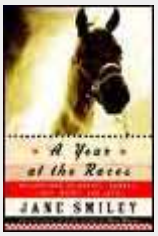
A Year at the Races: Reflections on Horses, Humans, Love, Money, and Luck
By Jane Smiley

Ascot race meeting in England—see above) seems designed to maintain a respectful distance between the species. Man has never lived in such close quarters with horses as he has with cats and dogs.



Knopf; 287 pages; $22. To be published in Britain by Faber & Faber in November

Buy it at
Amazon.com
Amazon.co.uk

It is the racecourse that lies at the heart of both these stylishly written books. But both use it to try and reach more deeply into the curious love that man has for these enigmatically dumb animals. Mr Sullivan's “Blood Horses” is not only about the passion and business of horse-racing, it is also about the history of the horse's domestication, and of the horse in western art and science. Most of all, though, it is an affectionate wake for Mr Sullivan's father, Mike, a poet-manqué-turned-sportswriter whose most vivid career memory was of watching Secretariat win the Kentucky Derby in 1973. It was, his father said, “just beauty, you know”.

The book has three distinct elements: first there is the author's excursions to tracks and horse-farms across the southern states of America, where he proves a keen observer of the strange rituals of horse trading (of the literal kind). He captures well the genteel conflict between Kentucky's tradition-obsessed old families (“Lexingtonians who can trace themselves back to one of the FFVs—first families of Virginia—are known to do little but contemplate that fact”) and the influx of new and international money needed to sustain those traditions.

The second part of the book meanders delightfully through horse history and includes a description of a day spent at the Keeneland stables (“the Vatican of horse country”) with John Ward, one of the world's top trainers. But it is in its third part that the book's heart really lies. There Mr Sullivan brings his father to life, a man from a long line of Irish storytellers who probably lived too hard and unhealthily, but who did it with lots of laughter and warm-hearted self-mockery. Perhaps the book's keenest observation is that “sons often wander like sleepwalkers into their fathers' defeats,” as Mr Sullivan did in becoming the poetic writer that his father had always wanted to be.

Mysterious objects of affection

Like Mr Sullivan, Jane Smiley loves the chewy, ancient language of horses and horsemanship—words such as scrungers, fetlock and withers. But the author of the Pulitzer-prize-winning “A Thousand Acres”—King Lear's relationships with his daughters transposed to a modern-day Iowa farm—has produced the more conventional book. In it, she seeks only to explain and analyse her love of horses and the place they fill in her life. “Horses”, she writes, “are more mysterious than life and harder to understand.”

In an attempt to understand them better she turns to a woman called Hali who claims to have a telepathic connection with the animals. As kooky and Californian as this strategy sounds, Ms Smiley is convinced it works. Hali's predictions and insights are at times uncannily accurate and they allow the author to feel more deeply connected to the mute objects of her affection. “It is only when you compare horses to your children that their advantages can be truly appreciated,” she says, without a trace of irony. King Lear might well have agreed with that.

Blood Horses: Notes of a Sportswriter's Son.
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A Year at the Races: Reflections on Horses, Humans, Love, Money, and Luck.
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About sponsorship

Stephen Spender

A dinner-party poet

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STEPHEN SPENDER lived two lives. In one, he was a member of a generation of poets who helped to re-define the shape of English verse. Other members of the group included C. Day Lewis, Louis MacNeice and W.H. Auden; all Oxford-educated, they turned their backs on the aestheticism of the 1920s and wrote a poetry which clamoured for social justice. Poetry, their verse seemed to proclaim, belongs out in the world.

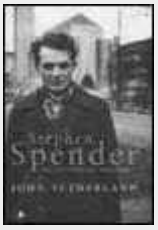
But there was another Spender too. This one was a critic, a prolific literary journalist and writer of memoirs, and a life-long ambassador for poetry. This second Spender was involved in the foundation of UNESCO immediately after the second world war; and he was a co-editor of the Anglo-American *Encounter* magazine, his reputation taking a knock in 1966 when it was revealed that the magazine had been partly (and covertly) funded by the CIA from its inception.

Unfortunately, as these two new books reveal—one his official biography, written by an academic at University College, London; the other the most comprehensive edition of his collected poems ever to be published—the two Spenders were somewhat at odds with each other. The instincts of Spender the poet were not the same as the instincts of Spender the urbane, life-long cultural ambassador.

Stephen Spender knew from his earliest years that he was destined to follow the “sacred cloaked vocation” of the poet. At 19 he met Auden at Oxford. Auden, brilliant, testy, carpet-slippered, always much older than his years, told him that he was writing too much, and too quickly. Spender, ever the willing disciple, abruptly slowed down.

Auden also recognised that there was a contradiction at the heart of Spender. He wanted to show stern social commitment, to right the injustices of the world, to espouse radical, left-wing causes (very briefly he belonged to the Communist Party), to be—and to be seen to be—boldly rebellious. But he was fundamentally a bit naive, always awash with strong romantic feelings, in pursuit of things and people to batten them on to.

Stephen Spender: The Authorized Biography
By John Sutherland



Viking; 627 pages; £25

Buy it at Amazon.co.uk

Stephen Spender: New Collected Poems
Edited by Michael Brett

Faber and Faber; 393 pages; £30

Buy it at Amazon.co.uk

John Sutherland's biography is a dutiful and thorough act of homage to a former colleague and friend. The account of Spender's first three decades leans heavily upon the best book that Spender ever wrote, a memoir of his early life, published in 1951. Called “World Within World”, it is a marvellously absorbing account of his inner self and how it negotiated its difficult way through a brash and brutish world of lies, deceit and compromise. The second half is a more prosaic presentation, sometimes day-by-day, often week-by-week, of the events until his death in 1995, almost at times an expansion of Spender's enormously full social diary. Was there anyone who was anyone in the world of high politics, arts and literature whom Spender, charming, gentle and urbane from first to last, did not meet over dinner?

This new edition of his work reprints the seven books of poems that Spender published during his lifetime, and adds some unpublished work for good measure. This is a mistake. When Spender himself published earlier editions of his collected poems, he was careful to edit out his immature work, and even to re-write pieces that his maturer self frowned upon. Now we have everything as he first published it, warts and all, and there is far too much of it, and far too much of it is not very good.

The editor argues in his introduction that it is beneficial for us to see how Spender developed as a poet.

This is unlikely to be true for anyone but the most dedicated and assiduous of literary scholars. Had Spender developed into a great poet, it would have been most welcome. But he didn't.

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By John Sutherland.
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Leadership

Nutty tales

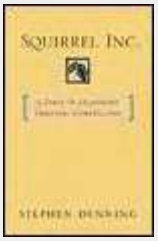
Jun 17th 2004
From The Economist print edition

ONCE upon a time there was a lemming called Stephen. He was a very clever lemming: top rodents would ask for his advice before setting off to lead their fellows on long and difficult journeys. One day, however, Stephen woke up with a start to find that the left-hand side of his brain, the part he used to analyse his fellow rodents' problems, had gone completely dead. He was reduced to using something that he hardly knew existed: the right-hand side, the part that allows lemmings to do wildly dotty things without rhyme or reason.

And it was then that it came to him in a flash: he would help to save the whole lemming race by writing a book. It would be a short book, but it would look like a long one because it would have lots of blank pages and many quotations in big type. It would be an allegory about animals, because Spencer had done one about mice that had been a huge hit, and George, of course, had transformed the genre into literature with his tales of life down on the farm.

After much thought, Stephen decided to write a cliff-hanger, because that's what lemmings do best. And the characters, he decided, would all be human animals. The plot would involve a particular group of these humans who should be making pots of money, but they're not.

Squirrel Inc.: A Fable of Leadership Through Storytelling
By Stephen Denning



Jossey-Bass; 208 pages; $22.95 and £14.50

Buy it at
Amazon.com
Amazon.co.uk

One obvious answer to their problem seems to be that they're spending too much time talking to each other about their problem. But, no. If only life were that simple. As Stephen's complex story evolves we see that these humans are condemned to failure by one thing, and one thing only: their inability to tell a rollicking good tale.

The main characters in the book then get together in a tavern where they spend all their days telling each other stories, while all their nights they spend, well, telling each other stories. In such a fantasy-filled environment, of course, it is not long before love blossoms.

The author, however, cannot resist the temptation to rodentomorphise his characters. At one point the book's heroine and the innkeeper are forced to leave for some faraway windy place. On the way the heroine suddenly looks up and sees water flooding towards her. But is it real, or is it just the backcloth to yet another fantasy? “Isn't this a really dumb story?” she asks dozily. And the innkeeper turns to her and replies, “It certainly doesn't keep you on the edge of your cliff.”

Squirrel Inc.: A Fable of Leadership Through Storytelling.
By Stephen Denning.
Jossey-Bass; 208 pages; $22.95 and £14.50

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About sponsorship

Archaeology in Turkey

New finds; no funds

Jun 17th 2004 | GOREME
From The Economist print edition

Save our patrimony from plunder

IN AN unexceptional field in Cappadocia, two large opaque tarpaulins flap in the Anatolian breeze. Beneath them lie what might be parts of a lost city called Sobesos, recently exposed to the light of day for the first time in over a millennium. One tarpaulin covers the exquisite mosaic floor of what was once a large meeting hall, its colours as vibrant as if newly laid; the other hides the partially uncovered remains of a Roman baths complex. The hypocaust of the hot-air heating system and the seating in its *caldarium* (steam room) are already clearly visible.

Since amateur treasure-hunters first stumbled upon the site in central Turkey in May 2002, a local archaeologist, Murat Gulyaz, has been working almost singlehandedly to uncover it. Locals recall a farmer in the field briefly exposing a mosaic of a chariot and two horses some 40 years ago, but it has yet to reappear. Mr Gulyaz says that the quality of the mosaics suggests they were probably done in the second or third century by a highly skilled itinerant artist whose work has also been found in Salonika and Syria.

Despite the potential significance of the find, however, Mr Gulyaz has been unable to raise money to continue. Such treasures are commonplace across Turkey, and his attempts have been overshadowed by a recent fierce controversy over a more spectacular set of mosaics, uncovered near Gaziantep, further to the east of Turkey, thanks in part to help from David Packard, a son of one of the founders of the Hewlett-Packard electronics company. The Turkish government wanted some of these so-called Zeugma mosaics to go to Istanbul to be exhibited in time for the NATO summit in the city at the end of June. But Gaziantep locals objected, charging that Turkish law does not allow mosaics to be moved from their original site. They won their case in a lower court, but the government won on appeal. By then, however, it was (a minister said) too late to get them to Istanbul in time.

The modest budget of Turkey's Ministry of Culture is spread thinly across a country where there are more than 150 big digs going on at any one time. The Zeugma mosaics attracted attention and money after widespread publicity claimed they were to be flooded behind dams being built in the area. Mr Gulyaz's mosaics are threatened only by the weather and Turkey's sophisticated art thieves. (In the 1990s, large chunks of the Zeugma mosaics reached a Manhattan dealer before they were discovered and returned.)

In the hope of finding more money to preserve its heritage, the Turkish government last year combined its Ministry of Culture with its Ministry of Tourism. The new joint ministry has the same budget as the old ones, but cultural sites with an obvious tourist potential are now more likely to receive help than those outside the main tourist areas. Furthermore, a bill currently before parliament proposes to devolve much responsibility for museums and excavations to local authorities (and local budgets). “We can't manage all our heritage from Ankara,” says one official, a welcome change of heart in suffocatingly centralised Turkey.

Mr Gulyaz's mosaics lie near the tourist town of Goreme, in the shadow of the rock dwellings of Cappadocia. This extra-terrestrial landscape of Hittite and early Christian troglodytic settlements numbers among UNESCO's 754 so-called World Heritage sites, sites which stand to benefit from the organisation's World Heritage Fund. But resources, again, are limited. The fund receives only $3m-4m a year, and priority goes to sites in the poorest places (mostly in Africa) and to those that have been damaged—by earthquakes, for example. Goreme's ill-protected, crumbly rock dwellings receive no assistance from UNESCO. The only outside financial help that Mr Gulyaz has obtained so far is a €5,000 ($6,000) donation from Mercedes-Benz to help build a protective fence around his site.

UNESCO's World Heritage Fund is hoping to kindle corporate interest in its activities, leveraging its modest budget to persuade the private sector to give more. Two years ago it launched a scheme called

PACT (Partnerships for Conservation) designed to persuade companies and others to join in its conservation efforts. But sadly, little has been achieved so far. The amount of money available to uncover finds like Mr Gulyaz's remains woefully small. Sobesos and its mosaics may stay for some time at the mercy of the weather and the professional looters who circle incessantly round all such tradable beauty.

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About sponsorship

Affirmative action

Advantages for the advantaged

Jun 17th 2004
From The Economist print edition

HERE are two books on “affirmative action” from the same publisher. One is by a black man, the other by a white woman. Thomas Sowell's “Affirmative Action Around the World” is a delight: terse, well argued and utterly convincing. The best one can say about Faye Crosby's “Affirmative Action is Dead; Long Live Affirmative Action” is that it is less badly written than the average academic tome.

Mr Sowell takes the reader on a fascinating tour of the ways in which the preferential treatment of chosen groups has been applied in India, Malaysia, Nigeria, Sri Lanka and the United States. Some groups singled out for a leg-up are minorities whose members have suffered discrimination in the past, such as American blacks or India's untouchables. To atone for the injustices inflicted on their forefathers, these groups have been granted favours, such as preferential access to universities or jobs. Other groups favoured in similar ways have never been discriminated against, but nonetheless do worse at school and in business than their neighbours. Examples include Malays in Malaysia, who earn less and learn less than their Chinese compatriots, and the Sinhalese in Sri Lanka, who have long lagged behind the Tamils.

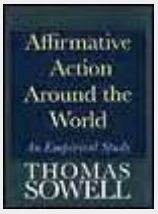
Mr Sowell's insight is that regardless of the supposed moral basis for preferential policies, the results are often remarkably similar. Though such policies are supposed to help the poor, their beneficiaries tend to be quite well-off. The truly poor rarely apply to enter university or bid for public-works contracts, and so cannot take advantage of quotas. The better-off quickly learn how to play the system.

Once affirmative-action policies are instituted, their proponents tend to credit them with all subsequent advances by the intended beneficiaries. Mr Sowell shows that this is bunk. Malays, for example, have done better in Singapore, where they do not receive preferences, than in Malaysia, where they do. And in America, blacks were working their way out of poverty at a faster rate before affirmative action was introduced than after. Supposedly pro-black policies have in some ways made it harder for blacks to find jobs. “The ease with which discrimination charges can be made,” writes Mr Sowell, provides an incentive “for businesses to locate away from concentrations of blacks.”

Mr Sowell's book is brief, but crammed with striking anecdotes and statistics. He tells of the family of recent Cuban immigrants with a $500m fortune who won American government contracts set aside for disadvantaged minorities, and of how preferential policies in Nigeria and Sri Lanka caused ethnic polarisation and, eventually, civil war. He shows how lowering the bar for certain groups dulls their incentives to excel. He quotes, for example, the architect of Malaysia's preferential policies, the former prime minister, Mahathir Mohamed, who laments that his fellow Malays now regard university places as a right, and so neglect their studies.

Ms Crosby's book is longer but covers less ground. She writes as if America were the only country in the world, and the Californian campus consensus the only set of opinions a reasonable person could hold. “Thoughtful scholars”, she tells us, “wonder why affirmative action has not elicited unwavering support” among Americans. They should read Mr Sowell's book and find out why.

Affirmative Action Around the World: An Empirical Study
By Thomas Sowell



Yale University Press; 256 pages; $28

Buy it at
Amazon.com
Amazon.co.uk

Affirmative Action is Dead; Long Live Affirmative Action
By Faye J. Crosby

Yale University Press; 352 pages; $30

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About sponsorship

New fiction

Scent of an other life

Jun 17th 2004
From The Economist print edition

RUTH PRAWER JHABVALA describes “My Nine Lives”, her latest work and her first for nine years, as potentially autobiographical: “Even when something didn't actually happen to me, it might have done,” she explains at the start of these nine elegant vignettes examining the different directions her life could have taken. Each of the “alternative destinies” is set in territory familiar to the 77-year-old author, reflecting different aspects of her multicultural life: her East European Jewish roots; the flight from a Germany in thrall to Hitler; her British education; and the many years spent living in India and the United States following her marriage to an Indian architect.

Although each chapter is a polished, self-contained story of invented memory, constant themes run throughout: mixed heritage, fleeing and searching, love, loss, meeting, parting and, as described in one chapter, “the passing of all things good and bad”. There are parallels with Ms Jhabvala's previous work, which includes 12 novels and the screenplays for several Merchant Ivory films, among them “A Room with a View” and “Howards End”. In her Booker-prize-winning novel “Heat and Dust”, a bored colonial wife has an affair with an Indian. She becomes pregnant, has an abortion and abandons her husband. A similar theme of love and loss is told in “Dancer with a Broken Leg”, the seventh of “My Nine Lives”.

My Nine Lives: Chapters of a Possible Past
By Ruth Prawer Jhabvala

Shoemaker & Hoard; 288 pages; $25.
John Murray; £16.99

Buy it at
Amazon.com
Amazon.co.uk

Much of the book's appeal lies in its richly drawn range of beguiling characters: there is Muktesh, a perceptive and devoted Indian politician whose Hindi is “colloquial, racy, like a language used for one's most intimate concerns”; and Edith, an Austrian refugee in London who is reduced to taking in lodgers while reminiscing on the “grand lifestyle—probably exaggerated in her mind—that had been hers in her family's house in Vienna”.

Ms Jhabvala's sense of place is mesmerising. In her pungent descriptions of India, cycle rickshaws ply the streets, hawkers sell peanuts and slices of coconut, the “fragrant sound” of a prayer meeting floats over the hot night air, and the scent of jasmine vies with the smells of petrol fumes and rotting vegetables. “My Nine Lives” is an accomplished, unusual and deeply personal book. Its thought-provoking themes and emotional power will leave readers musing on the alternative lives they too might have led.

My Nine Lives: Chapters of a Possible Past.
By Ruth Prawer Jhabvala.
Shoemaker & Hoard; 288 pages; $25.
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About sponsorship

Obituary

Ray Charles

Jun 17th 2004
From The Economist print edition

AP

Ray Charles Robinson, music-maker, died on June 10th, aged 73

IN THE small town of Greenville in northern Florida, round the corner from Western Avenue, Wylie Pittman used to run a joint called the Red Wing Café. With its upright piano and its juke box, this was Greenville's answer to a night club in the 1930s. There was nothing much else round about but the railway, poor blacks and pine forests.

A black boy called “RC” haunted the café. His deserted mother took in washing for a living. His sight was failing, and by the age of six he was blind from glaucoma. But Pittman let him play the juke box: Nat King Cole, Count Basie, blues from Tampa Red, and the whole of the Classical Selection. After that, plumping him down on a stack of soda crates, he would take his small hands and let him loose on the piano, encouraging him when the boy hit on something good.

Of the many influences on Ray Charles's career, those sessions at the Red Wing Café were perhaps the most fundamental. The singer who wooed, teased and thrilled audiences the world over for 50 years, swaying on the piano stool in his sparkling lamé jackets, was still the delighted little boy teetering on the soda crates. He never saw the bright lights that surrounded him for much of his life, but he told his biographer that lights were his best memories of the years when he could see: flaring matches, lightning he tried to catch, and the sun blazing through the tall trees in the woods he used to explore.

Mr Charles felt the music was there even earlier, like an extra limb or a sixth sense, as soon as he was born. It was “one of my parts”, he said, “like my blood”, or a force inside him, “nothing separate from me”. However he struggled to describe it, one thing was clear: if you wanted to stop him playing and singing, “You'd have to remove the music surgically.”

Which music was it? A mixture of almost everything he had ever heard, from Minnie Pearl to Sibelius, from Art Tatum to Chopin, from the Baptist choir in Greenville (in which he sang) to hillbilly players strumming on their guitars. At the start of his career, as an orphaned teenager travelling round Florida, he imitated the rural musicians with whom he played, though already he had a formidable ability to orchestrate music in Braille. A little later, living on scant savings in the red-light district of Seattle, he modelled himself on the crooner Cole. But after realising he was known only as an imitator, a “boy” with no name of his own, he determined to make a music that was distinctively his.

That music turned out to be an amalgam mostly of gospel and blues, with the gospel hotter than anyone imagined. Mr Charles's first act of daring, in 1954, was to transform the hymn “My Jesus is All the World to Me” into “I Got a Woman”. His second, in 1959, was to use moaning and wailing gospel-choir techniques in a song called “What'd I Say?” to suggest the sexual play between a woman and a man. Banned on radio stations all across America, it sold a million copies.

To those who complained of blasphemy and abomination, and who saw unleashed black sexuality as a threat to America second only to Soviet missiles, Mr Charles gave an innocent rejoinder: he was only singing what he felt. He was talking about a woman as he would talk about God. The fact that women in his act lingered round him like sirens, in skin-tight turquoise dresses, and that he was hooked for years on heroin and promiscuous sex, was somewhat smoothed by the knowledge that his music had sprung both out of a desperately hard life and, however wildly, out of church.

Songs for the general Joe

Mr Charles did not invent “soul”, as he came to call it. But he put his stamp on it so thoroughly, as unmistakably as the gravelly baritone and the dark glasses, that he may as well have done. It was the same with “his” songs. After hearing him sing “Georgia on My Mind”, few remembered that it had been written by Hoagy Carmichael; and after his renditions of “America the Beautiful”, most famously at the tearful Republican convention that re-crowned Ronald Reagan in 1984, the anthem was more or less declared to be his property.

He was seldom, however, an overtly political figure. At first he seemed no more angry about segregation—in which, even at the blind school he attended in Florida, the white and black children were kept apart—than he did about his own blindness, whose effect on his life he dismissed as “nothing”. But he began to protest when he found that blacks and whites could not sit together at his concerts. He soon became friends with Martin Luther King, though he believed his role in the struggle was different. As a music-maker, he wanted to sing about “the general Joe” and the hardships suffered by both blacks and whites as they tried to settle, love and earn a living. As a star, he had no trouble raising money for King's legal costs.

At bottom, Mr Charles felt that music could do the job of integration. He believed it could do anything. At his concerts, he was well aware of holding audiences in the palm of his hand: wildly roiling them one moment, making them cry the next, and then sliding to a silence in which you could hear a pin drop. This was power; to revert to his seeing days, this was lightning you could catch.

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Overview

Jun 17th 2004
From The Economist print edition

America's inflation rate is picking up. Consumer prices rose by 0.6% in May, for a 12-month inflation rate of 3.1%, up from 2.3% in April. May's inflation rate was the highest since 2001. Higher prices for energy, which climbed by 4.6% during the month, and for food, which rose by 0.9% thanks chiefly to dearer dairy products, were responsible for most of the increase. Excluding these volatile commodities, however, core consumer-price inflation rose by just 0.2% in May. Indeed, the core inflation rate for the year to May fell to 1.7%, down from 1.8% in the year to April.

Industrialists and consumers alike are getting busier in **America**. Industrial production rose by 1.1% in May, the biggest monthly gain in nearly six years. The value of **retail sales** rose by 1.2% in May, and by 8.9% in the year to May.

American **consumer confidence**, as gauged by the University of Michigan's consumer confidence index, rebounded in early June from its slump in May. Consumers were more optimistic regarding both current conditions and expectations for the future.

A growing economy continues to stoke American demand for imports. Its **goods trade deficit** hit a record high in April at $53.2 billion. Imports of goods, including oil, rose slightly to another record high, while exports fell by 2.3% during the month.

The **euro area**, like America, is feeling the effects of rising global inflation. Consumer prices in the year to May rose by 2.6% in **France**, by 2.1% in **Austria** and by 3.4% in **Spain**.

Inflation in **Britain** rose to 1.5% in the year to May, up from 1.2% in the year to April, which mostly reflected higher prices for petrol. Producer-price inflation rose to 2.4% in the year to May, up from 1.8% in the year to April. Unemployment, as measured by the number of people claiming jobless benefit, fell by 12,000 people in May, a bigger-than-expected drop.

Japan's industrial output grew in April by a revised 3.5%, up from an earlier estimate of 3.3%. Retail sales fell by 0.5% in the year to April.

Industrial output in **Sweden** rose by 2.7% in April, and by 4.3% in the year to April.

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Output, demand and jobs

Jun 17th 2004
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2004	2005	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 3.2	Q1	+ 0.9	+ 3.8	+ 3.1	– 0.9	Q4	+ 7.7	Q1	5.5	May	6.1
Austria	+ 0.8	Q4	+ 0.4	+ 1.6	+ 1.9	+ 2.1	Mar	+ 2.6	Mar	4.4	May	4.4
Belgium	+ 2.0	Q1	+ 3.0	+ 1.9	+ 2.0	– 1.0	Apr	nil	Mar	12.3	May†	11.4
Britain	+ 3.0	Q1	+ 2.5	+ 3.1	+ 2.6	+ 0.5	Apr	+ 6.1	Apr	4.8	Apr††	5.1
Canada	+ 1.6	Q1	+ 2.4	+ 2.8	+ 3.3	+ 1.9	Mar	+ 4.9	Mar	7.2	May	7.9
Denmark	+ 1.3	Q1	+ 2.3	+ 2.0	+ 2.2	+ 3.3	Apr	+ 5.3	Apr	6.5	Apr	5.9
France	+ 1.7	Q1	+ 3.1	+ 2.1	+ 2.2	+ 1.1	Apr	+ 2.7	Apr	9.8	Apr	9.6
Germany	+ 1.5	Q1	+ 1.8	+ 1.4	+ 1.7	+ 3.0	Apr	– 1.8	Apr	10.5	May§	10.7
Italy	+ 0.8	Q1	+ 1.8	+ 1.1	+ 1.7	+ 0.2	Apr	– 2.7	Mar	8.5	Jan	8.9
Japan	+ 5.6	Q1	+ 6.1	+ 4.1	+ 2.1	+ 8.7	Apr	– 0.5	Apr	4.7	Apr	5.4
Netherlands	+ 0.8	Q1	+ 1.7	+ 1.1	+ 1.7	+ 1.1	Apr	– 2.3	Mar‡	6.4	Apr**	4.9
Spain	+ 2.8	Q1	+ 2.6	+ 2.8	+ 2.8	+ 0.9	Apr	+ 4.3	Apr	11.2	Apr	11.3
Sweden	+ 2.6	Q1	+ 2.6	+ 2.5	+ 2.5	+ 4.3	Apr	+ 3.5	Apr	5.4	Apr†	4.6
Switzerland	+ 1.5	Q1	+ 1.6	+ 1.7	+ 1.9	+ 1.7	Q4	+ 1.6	Apr	3.8	May†	3.6
United States	+ 5.0	Q1	+ 4.4	+ 4.7	+ 3.6	+ 6.3	May	+ 8.5	Apr	5.6	May	6.1
Euro area	+ 1.3	Q1	+ 2.3	+ 1.7	+ 2.0	+ 1.0	Mar	+ 1.0	Apr	9.0	Apr	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 2.7	Q1	+ 3.0	na	na	+ 0.7	Apr	+ 4.8	Mar	10.6	Apr†	10.4
Greece	+ 4.0	Q1	+ 3.0	na	na	+ 1.8	Apr	+ 5.4	Mar	na		na
Iceland	+ 4.9	Q1	na	na	na	na		na		3.5	Apr†	3.9
Ireland	+ 2.7	Q4	na	na	na	+ 4.0	Apr	+ 5.0	Mar	4.5	May	4.4
Luxembourg	+ 2.1	2003	na	na	na	– 1.2	Dec	+ 0.1	Jan	4.3	Apr	3.6
New Zealand	+ 3.2	Q4	+ 2.4	na	na	+ 3.2	Q4	+ 8.0	Q1	4.3	Q1	4.9
Norway	+ 2.9	Q1	+ 3.9	na	na	+ 0.7	Apr	+ 2.1	Apr	4.5	Q1	4.4
Portugal	+ 0.1	Q1	+ 2.4	na	na	– 3.2	Apr	+ 3.6	Apr	6.4	Q1†	6.4

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Feb-Apr; claimant count rate 2.8% in May. §EU harmonised rate 9.8% in May. **Feb-Apr.

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Prices and wages

Jun 17th 2004
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2004	2005	latest		year ago	latest		year ago
Australia	+ 2.0	Q1	+ 3.4	+ 2.3	+ 2.6	– 1.1	Q1	+ 3.0	+ 5.1	Q1	+ 4.4
Austria	+ 2.1	May	+ 1.1	+ 1.5	+ 1.5	+ 6.1	May	+ 0.6	+ 2.2	Apr	+ 2.2
Belgium	+ 2.6	May	+ 1.0	+ 1.5	+ 1.5	+ 2.6	Apr	+ 0.2	+ 2.3	Apr	+ 1.7
Britain	+ 1.5	May*	+ 1.2	+ 1.5	+ 1.8	+ 2.4	May	+ 1.1	+ 4.3	Apr†	+ 3.2
Canada	+ 1.6	Apr	+ 3.0	+ 1.6	+ 2.0	+ 1.5	Apr	– 0.5	+ 3.0	Mar	+ 1.6
Denmark	+ 1.3	May	+ 2.2	+ 1.4	+ 2.0	+ 2.8	May	– 0.6	+ 3.3	Q1	+ 3.9
France	+ 2.6	May	+ 1.8	+ 2.0	+ 1.6	+ 1.3	Apr	+ 1.0	+ 2.7	Q4	+ 3.5
Germany	+ 2.0	May	+ 0.7	+ 1.4	+ 1.2	+ 3.6	May	– 0.4	+ 1.4	Mar	+ 3.6
Italy	+ 2.3	May	+ 2.7	+ 2.2	+ 2.1	+ 1.7	Apr	+ 2.0	+ 2.8	Apr	+ 1.7
Japan	– 0.4	Apr	– 0.1	– 0.1	+ 0.1	+ 1.1	May	– 1.1	+ 0.7	Apr	+ 1.8
Netherlands	+ 1.5	May	+ 2.0	+ 1.4	+ 1.3	+ 2.1	Apr	+ 1.4	+ 1.6	May	+ 3.0
Spain	+ 3.4	May	+ 2.7	+ 2.6	+ 2.6	+ 2.6	Apr	+ 1.4	+ 3.3	Q4	+ 3.9
Sweden	+ 0.7	May	+ 1.9	+ 0.8	+ 1.6	– 0.2	Apr	– 0.1	+ 1.5	Mar	+ 1.5
Switzerland	+ 0.9	May	+ 0.4	+ 0.4	+ 0.9	+ 0.7	Apr	– 0.3	+ 1.4	2003	+ 1.8
United States	+ 3.1	May	+ 2.1	+ 2.3	+ 2.0	+ 3.7	Apr	+ 2.4	+ 2.2	May	+ 3.0
Euro area	+ 2.5	May	+ 1.8	+ 1.8	+ 1.7	+ 1.4	Apr	+ 1.7	+ 2.3	Q1‡	+ 3.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	– 0.1	May	+ 0.7	na	na	+ 1.6	May	– 0.7	+ 4.1	Q1	+ 4.1
Greece	+ 2.9	May	+ 3.8	na	na	+ 2.8	Apr	+ 1.0	na		na
Iceland	+ 3.9	Jun	+ 1.8	na	na	+ 5.0	May	+ 3.0	+ 4.0	Apr	+ 5.6
Ireland	+ 1.7	May	+ 3.7	na	na	– 4.1	Apr	– 7.5	+ 6.1	Q4	+ 6.4
Luxembourg	+ 2.3	May	+ 1.9	na	na	+ 0.1	Dec	+ 1.3	– 0.4	Dec	+ 0.7
New Zealand	+ 1.5	Q1	+ 2.5	na	na	– 0.6	Q1	– 1.3	+ 2.2	Q1	+ 2.3
Norway	+ 1.0	May	+ 2.1	na	na	+18.8	May	– 4.5	+ 4.6	Q1	+ 5.3
Portugal	+ 2.4	May	+ 3.7	na	na	+ 1.1	Apr	+ 2.0	+ 2.6	Mar	– 2.6

*New series. RPI inflation rate in May: 2.8%. †Feb-Apr. ‡Labour costs.

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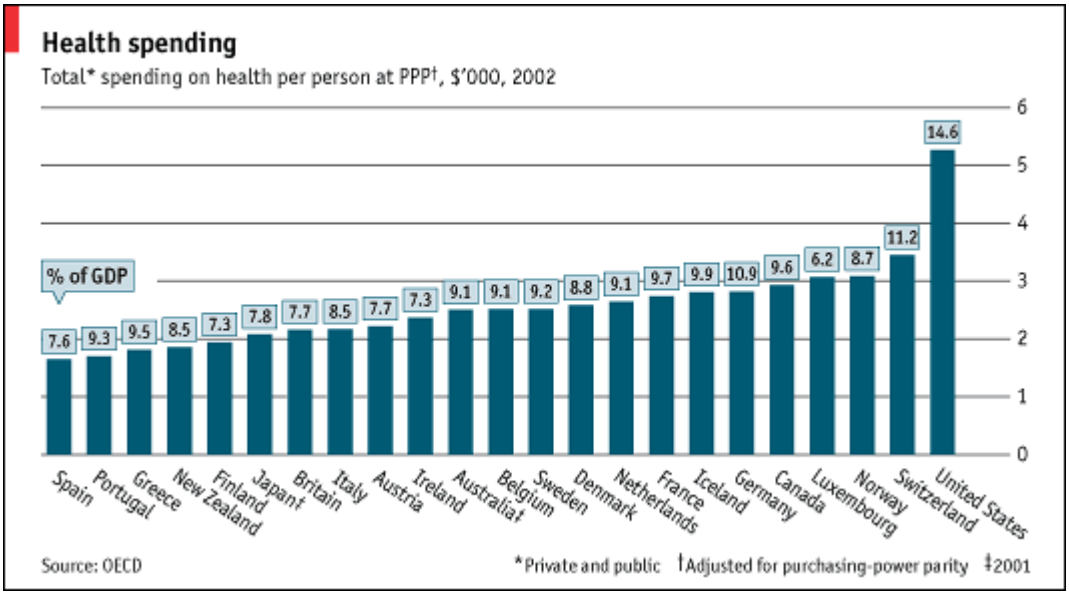
Health spending

Jun 17th 2004
From The Economist print edition



Expendiure on health care is rising sharply in many industrialised countries. Average spending across the OECD grew from 7.8% of GDP in 1997 to 8.5% in 2002. New technologies and ageing populations are pushing up spending, as are policies in countries such as Britain to improve the quality of national health services. America is still by far the world's biggest spender on health care, at $5,267 per person.

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Money and interest rates

Jun 17th 2004
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Jun 16th 2004)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 7.0	+11.0	Apr	5.49	4.64	5.15	5.92	4.77	6.75
Britain	+ 5.7	+ 7.1	Apr	4.75	3.59	4.95	5.19	4.06	5.93
Canada	+12.6	+ 8.6	Apr	1.94	3.11	3.38	5.29	4.32	6.15
Denmark	+ 8.8	+ 8.8	Apr	2.25	2.25	2.69	4.49	3.86	5.53
Japan	+ 4.2	+ 2.0	May	0.02	0.02	0.23	1.86	0.52	1.88
Sweden	+ 0.3	+ 3.2	Apr	1.96	2.69	3.02	4.64	4.14	3.09
Switzerland	+ 9.4	+ 4.3	May	0.42	0.27	1.35	2.87	2.34	2.67
United States	+ 5.1	+ 5.5	May	1.45	0.95	2.80	4.73	3.36	6.09
Euro area†	+10.9	+ 5.6	Apr	2.12	2.14	2.65	4.32	3.66	4.17

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. Benchmarks: US 30-year 5.48%, Japan No. 260 1.875%. Central bank rates: US fed funds 1.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.5%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Jun 17th 2004
From The Economist print edition

1995=100

	Jun 8th	Jun 15th*	% change on one month	% change on one year
Dollar index				
All items	95.1	93.7	– 1.0	+21.9
Food	93.0	82.1	–12.7	+ 6.0
Industrials				
All	98.1	96.0	+ 0.3	+26.0
Nfa†	94.2	94.2	– 2.8	+17.5
Metals	101.3	97.6	+ 3.0	+33.9
Sterling index				
All items	81.8	81.3	– 3.7	+13.1
Euro index				
All items	102.0	102.1	– 2.0	+19.2
Yen index				
All items	111.1	109.8	– 4.7	+13.5
Gold				
$ per oz	392.25	386.50	+ 2.5	+ 6.4
West Texas Intermediate				
$ per barrel	37.15	37.14	– 8.0	+19.6

* Provisional. † Non-food agriculturals.

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Stockmarkets

Jun 17th 2004
From The Economist print edition

Market indices

	Jun 16th	2004 high	2004 low	% change on one week	% change on record high	% change on Dec 31st 2003 in local currency	% change on Dec 31st 2003 in $ terms
Australia (All Ordinaries)	3,484.6	3,484.6	3,274.9	+ 0.5	nil	+ 5.4	- 3.7
Austria (ATX)	1,914.2	1,985.9	1,568.9	+ 2.4	- 3.6	+23.9	+17.9
Belgium (Bel 20)	2,450.8	2,517.3	2,244.2	- 0.8	-33.4	+ 9.2	+ 4.0
Britain (FTSE 100)	4,491.1	4,575.7	4,309.4	nil	-35.2	+ 0.3	+ 2.4
Canada (Toronto Composite)	8,427.9	8,898.8	8,123.5	+ 1.3	-26.0	+ 2.5	- 3.8
Denmark (KBX)	232.5	241.3	219.0	+ 1.2	-23.0	+ 8.8	+ 3.8
France (SBF 250)	2,524.7	2,594.4	2,411.5	+ 0.2	-42.5	+ 4.7	- 0.3
(CAC 40)	3,714.5	3,811.4	3,465.3	+ 0.4	-46.3	+ 4.4	- 0.6
Germany (DAX)	4,003.2	4,151.8	3,726.1	+ 0.1	-50.4	+ 1.0	- 3.9
Italy (BCI)	1,323.8	1,340.3	1,239.5	+ 0.9	-39.3	+ 5.3	+ 0.3
Japan (Nikkei 225)	11,641.7	12,163.9	10,365.4	+ 1.7	-70.1	+ 9.0	+ 6.3
(Topix)	1,167.1	1,217.9	1,022.6	+ 1.2	-59.5	+11.8	+ 9.0
Netherlands (AEX)	342.1	364.8	323.0	+ 0.1	-51.2	+ 1.3	- 3.5
Spain (Madrid SE)	848.3	881.7	808.0	- 0.1	-26.0	+ 5.0	- 0.1
Sweden (Affarsvarlden Gen)	202.7	218.1	188.5	- 0.3	-49.4	+ 7.6	+ 1.5
Switzerland (Swiss Market)	5,710.0	5,934.4	5,469.0	- 0.1	-32.1	+ 4.0	+ 1.5
United States (DJIA)	10,379.6	10,737.7	9,906.9	+ 0.1	-11.5	- 0.7	- 0.7
(S&P 500)	1,133.6	1,157.8	1,084.1	+ 1.7	-25.8	+ 1.9	+ 1.9
(NASDAQ Comp)	1,998.2	2,153.8	1,876.6	+ 0.4	-60.4	- 0.3	- 0.3
Europe (FTSE Eurotop 300)*	1,007.1	1,026.2	957.9	+ 0.4	-40.9	+ 5.1	+ 0.1
Euro area (FTSE Ebloc 100)*	849.6	888.3	806.7	+ 0.5	-45.2	+ 2.2	- 2.8
World (MSCI)†	1,052.4	1,085.8	997.0	+ 0.1	-27.4	+ 1.6	+ 1.6
World bond market (Citigroup)‡	586.1	619.5	575.1	- 0.5	- 5.4	- 2.9	- 2.9

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Jun 17th 2004
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2004	2005	Exchange rate trade-weighted† 1990=100 Jun 16th	year ago	Currency units per $ Jun 16th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2004‡
Australia	− 16.8	Apr	− 33.0	Q1	− 5.2	− 4.5	82.0	83.8	1.45	1.49	2.66	1.74	1.32	0.5
Austria	− 0.8	Mar	− 1.3	Mar	+ 0.4	+ 0.5	102.8§	102.3	0.83	0.86	1.52	–	0.76	-1.3
Belgium	+ 22.1	Mar	+ 8.0	Dec	+ 3.9	+ 3.9	102.7§	102.2	0.83	0.86	1.52	–	0.76	-0.2
Britain	− 89.4	Apr	− 30.8	Q4	− 2.6	− 2.6	106.8	100.5	0.55	0.60	–	0.66	0.50	-2.9
Canada	+ 47.8	Apr	+ 20.9	Q1	+ 1.8	+ 1.3	83.9	87.3	1.38	1.34	2.52	1.65	1.25	1.2
Denmark	+ 9.2	Apr	+ 6.4	Apr	+ 2.6	+ 2.5	106.0	106.6	6.19	6.35	11.3	7.43	5.63	0.9
France	+ 4.6	Apr	+ 10.5	Apr	+ 0.9	+ 0.8	106.1§	105.4	0.83	0.86	1.52	–	0.76	-3.8
Germany	+174.2	Apr	+ 74.3	Apr	+ 2.6	+ 2.6	103.8§	102.9	0.83	0.86	1.52	–	0.76	-3.7
Italy	+ 2.0	Mar	− 18.6	Mar	− 1.0	− 0.9	75.7§	75.1	0.83	0.86	1.52	–	0.76	-3.1
Japan	+121.4	Apr	+157.2	Apr	+ 3.3	+ 3.3	134.8	127.0	110	119	201	132	–	-7.1
Netherlands	+ 33.1	Apr	+ 18.7	Q1	+ 2.6	+ 2.7	102.1§	101.6	0.83	0.86	1.52	–	0.76	-3.1
Spain	− 56.5	Mar	− 27.0	Mar	− 2.9	− 3.0	76.9§	76.6	0.83	0.86	1.52	–	0.76	0.3
Sweden	+ 21.5	Apr	+ 21.2	Q1	+ 5.9	+ 5.6	80.6	81.7	7.63	7.76	13.9	9.16	6.94	0.2
Switzerland	+ 7.9	Apr	+ 32.8	Q4	+10.6	+10.3	113.4	112.3	1.27	1.32	2.32	1.52	1.15	-1.6
United States	−568.9	Apr	−540.9	Q4	− 5.1	− 5.1	98.4	101.6	–	–	1.83	1.20	0.91	-4.7
Euro area	+ 98.2	Mar	+ 47.6	Mar	+ 0.4	+ 0.4	89.2	90.8	0.83	0.86	1.52	–	0.76	-2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 14.8	Apr	+ 11.2	Apr	na	na	81.7§	81.1	0.83	0.86	1.52	–	0.75	1.6
Greece	− 26.8	Mar	− 10.3	Mar	na	na	59.4§	59.1	0.83	0.86	1.52	–	0.75	-3.2
Iceland	− 0.3	Apr	− 0.6	Q4	na	na	96.5**	97.2	72.0	73.4	132	86.5	65.5	0.2
Ireland	+ 42.8	Mar	− 3.0	Q4	na	na	93.6§	93.4	0.83	0.86	1.52	–	0.75	-0.5
Luxembourg	− 3.7	Mar	+ 2.5	Q4	na	na	102.7§	102.2	0.83	0.86	1.52	–	0.75	-1.8
New Zealand	− 2.4	Apr	− 3.5	Q4	na	na	101.6	98.0	1.61	1.71	2.94	1.93	1.46	2.9
Norway	+ 28.6	May	+ 28.9	Mar	na	na	96.3	98.3	6.76	7.00	12.4	8.12	6.15	10.4
Portugal	− 14.4	Mar	− 8.4	Mar	na	na	93.6**	92.7	0.83	0.86	1.52	–	0.75	-3.8

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, April average. ‡OECD forecast. **IMF, March average.

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Ten-year government-bond yields

Jun 17th 2004
From The Economist print edition

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Overview

Jun 17th 2004
From The Economist print edition

India's industrial output rose by 9.4% in the year to April. During the same period, consumer prices rose by 2.2%.

Hungary's current-account deficit widened sharply in April, giving a 12-month deficit of $7.1 billion.

Inflation is creeping up in **Poland**. Consumer prices rose by 3.4% in the year to May, up from 2.2% in the year to April.

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Asia-Pacific digital usage

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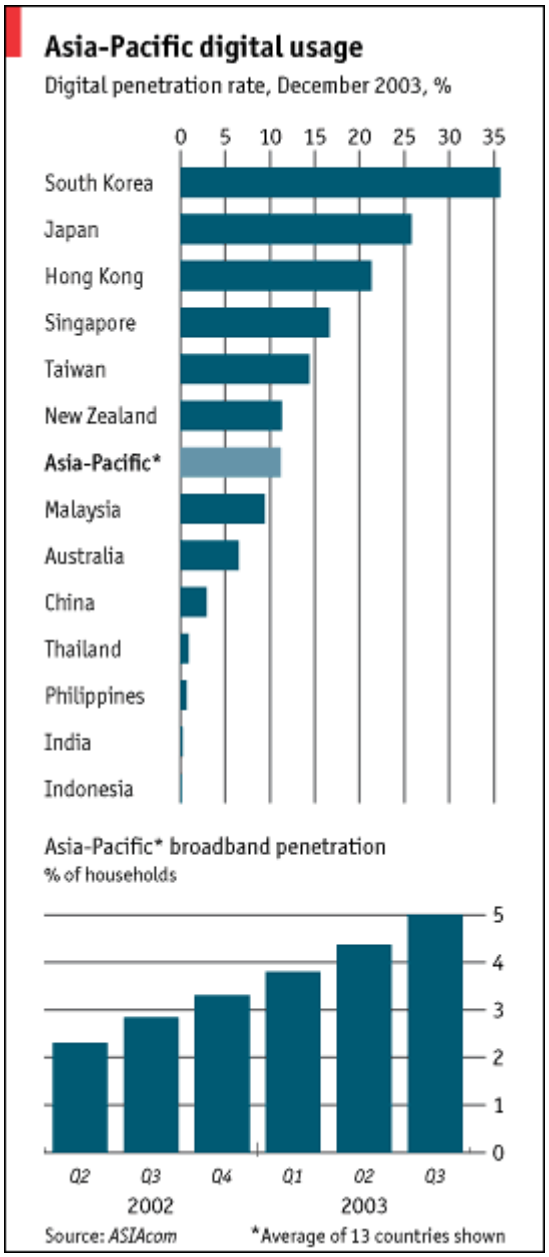
Use of a broadband internet connection has been growing rapidly in the Asia-Pacific region. By late 2003, it had spread to 5% of households, up from 3% a year before. The highest penetration rate is in South Korea, where 70% of households use it. This is one of the reasons why the country ranks as the region's leading digital nation according to a new index. In Japan, ranked second, broadband is used by 30% of households. The index is based on the prevalence of digital TV and 3G mobile phones, as well as broadband usage. Despite China's economic advances, it remains a digital laggard.



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Economy

Jun 17th 2004
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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.8	Q1	+17.5	May	+ 4.4	May	+15.6	May	+45.9	2003	444.4	Mar
Hong Kong	+ 6.8	Q1	– 6.1	Q4	– 1.5	Apr	–11.4	Apr	+17.4	Q4	120.1	May
India	+10.4	Q4	+ 9.4	Apr	+ 2.2	Apr	–15.6	Apr	+ 3.2	Q4	114.3	May
Indonesia	+ 4.5	Q1	+ 5.1	Jan	+ 6.5	May	+27.9	Apr	+ 7.4	Q4	35.9	Apr
Malaysia	+ 7.6	Q1	+14.0	Apr	+ 1.2	May	+20.4	Apr	+12.3	Q4	53.9	May
Philippines	+ 6.4	Q1	–11.0	Mar	+ 4.5	May	– 1.7	Mar	+ 3.3	Dec	13.3	May
Singapore	+ 7.5	Q1	+22.2	Apr	+ 1.3	Apr	+15.1	May	+27.6	Q1	101.1	May
South Korea	+ 5.3	Q1	+11.3	Apr	+ 3.3	May	+26.5	May	+21.9	Apr	163.6	Apr
Taiwan	+ 6.3	Q1	+12.8	Apr	+ 0.9	May	+14.6	May	+27.4	Q1	229.0	May
Thailand	+ 6.5	Q1	+ 7.7	Apr	+ 2.4	May	+ 2.8	Apr	+ 7.5	Apr	41.6	Apr
Argentina	+11.3	Q4	+ 6.0	Apr	+ 4.3	May	+14.4	Apr	+ 7.9	Q4	15.8	Apr
Brazil	+ 2.7	Q1	+11.9	Mar	+ 5.2	May	+28.0	May	+ 5.9	Apr	50.5	Apr
Chile	+ 4.8	Q1	+ 4.9	Apr	+ 0.6	May	+ 5.8	May	– 0.1	Q1	16.0	May
Colombia	+ 3.8	Q1	+ 7.1	Mar	+ 5.4	May	+ 0.1	Mar	– 1.4	Q4	11.3	Apr
Mexico	+ 3.7	Q1	+ 4.0	Apr	+ 4.3	May	– 5.7	Apr	– 9.1	Q1	60.3	Apr
Peru	+ 5.5	Mar	+ 7.9	Mar	+ 3.2	May	+ 1.4	Apr	– 0.6	Q1	10.1	Apr
Venezuela	+29.8	Q1	+43.2	Mar	+21.8	May	+17.8	Q1	+12.3	Q1	17.8	Mar
Egypt	+ 3.1	2003†	+ 2.6	2003†	+ 5.5	Dec	– 6.0	Q4	+ 3.9	Q4	13.6	Feb
Israel	+ 2.6	Q1	+10.9	Mar	– 0.6	May	– 5.9	May	– 0.2	Q4	26.6	May
South Africa	+ 1.9	Q1	+ 2.9	Apr	+ 0.2	Apr	+ 1.5	Apr	– 1.5	Q4	8.9	May
Turkey	+ 6.1	Q4	+16.5	Apr	+ 8.9	May	–25.3	Mar	– 9.0	Mar	33.7	Apr
Czech Republic	+ 3.1	Q1	+10.1	Apr	+ 2.7	May	– 2.5	Apr	– 6.0	Q1	26.4	May
Hungary	+ 4.2	Q1	+ 9.4	Apr	+ 7.6	May	– 4.2	Apr	– 7.1	Apr	13.1	May
Poland	+ 6.9	Q1	+21.9	Apr	+ 3.4	May	– 5.5	Mar	– 2.9	Mar	34.3	Apr
Russia	+ 7.4	Q1	+ 5.5	May	+10.2	May	+65.7	Apr	+35.3	Q1	81.8	May
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 6.8	Q1	+ 4.1	Apr	+ 3.7	May	– 2.3	Apr	– 1.2	Q1	1.3	Apr
Latvia	+ 8.8	Q1	+ 9.4	Apr	+ 6.2	May	– 2.2	Mar	– 1.1	Mar	1.7	Apr
Lithuania	+ 7.7	Q1	na		+ 1.1	May	– 2.9	Apr	– 1.2	Q4	3.3	Apr
Slovakia	+ 5.5	Q1	+ 5.7	May	+ 8.3	May	– 0.4	Apr	nil	Mar	11.6	Apr
Slovenia	+ 3.7	Q1	– 0.9	Apr	+ 3.8	May	– 0.9	Apr	– 0.1	Apr	8.3	Mar
Pakistan	+ 5.1	2003†	+18.7	Jan	+ 7.1	May	– 2.7	May	+ 2.4	Q1†	11.1	May
Saudi Arabia	+ 6.4	2003	na		+ 0.3	Mar	+42.6	2002	+29.7	2003	22.1	Apr

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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Financial markets

Jun 17th 2004
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jun 16th		Dec 31st 2003	
	Jun 16th	year ago	Jun 16th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	15.1	2.85	1,549.7	+0.6	– 1.2	– 1.2
Hong Kong	7.80	7.80	14.3	0.62	12,161.8	– 1.4	– 3.3	– 3.7
India	45.3	46.5	82.8	4.41	4,788.8	– 3.5	– 18.0	– 17.4
Indonesia	9,407	8,232	17,194	7.53	707.9	– 0.3	+ 2.3	– 8.4
Malaysia	3.80	3.80	6.95	2.90	818.2	nil	+ 3.1	+ 3.1
Philippines	56.2	53.4	102.8	7.94	1,543.5	nil	+ 7.0	+ 5.7
Singapore	1.72	1.73	3.14	0.75	1,831.3	+0.6	+ 3.8	+ 2.6
South Korea	1,158	1,185	2,116	3.90	752.3	– 5.3	– 7.2	– 4.5
Taiwan	33.5	34.5	61.3	1.10	5,560.2	– 6.8	– 5.6	– 4.5
Thailand	41.0	41.6	74.9	1.29	624.4	+2.1	– 19.1	– 21.8
Argentina	2.96	2.80	5.40	5.50	909.3	+0.6	– 15.2	– 15.9
Brazil	3.15	2.88	5.75	15.79	20,459.8	+3.0	– 8.0	– 15.6
Chile	650	706	1,188	1.80	7,375.3	+2.2	+ 0.5	– 8.4
Colombia	2,727	2,827	4,983	7.73	3,079.9	+0.7	+ 32.0	+ 34.5
Mexico	11.4	10.6	20.8	6.54	10,151.6	– 0.7	+ 15.4	+ 13.9
Peru	3.48	3.47	6.35	2.24	2,867.9	– 1.3	+ 17.8	+ 17.4
Venezuela	2,657§	1,598	4,856	14.91	24,647.4	– 3.3	+ 11.0	+ 19.2
Egypt	6.18	5.99	11.30	10.97	14,487.1	– 1.9	+ 24.5	+ 24.2
Israel	4.51	4.39	8.24	1.00	576.8	+0.2	+ 7.9	+ 5.3
South Africa	6.54	7.90	11.9	8.20	10,100.9	– 3.1	– 2.8	– 0.7
Turkey	1,495,000	1,419,500	2,732,561	25.26	17,099.0	– 2.9	– 8.2	– 13.7
Czech Republic	26.4	26.9	48.3	2.29	787.5	+0.4	+ 19.5	+ 16.0
Hungary	211	229	386	11.50	11,194.8	+0.2	+ 19.3	+ 17.3
Poland	3.80	3.77	6.94	5.95	23,203.1	– 0.9	+ 11.4	+ 9.9
Russia	29.0	30.4	53.0	13.00	533.3‡	– 9.6	– 6.7	– 6.0
EMF (MSCI)*	1.00	1.00	1.83	na	414.9	– 3.6	– 6.3	– 6.3
EMBI+†	1.00	1.00	1.83	na	283.3	nil	– 3.9	– 3.9

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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